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Foreign Relations of the United States, 1955–1957

Volume VI

American Republics: Multilateral; Mexico; Caribbean

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Preface

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts which contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of The Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.

b. To condense the record and avoid repetition of needless details.

c. To preserve the confidence reposed in the Department by individuals and by foreign governments.

d. To avoid giving needless offense to other nationalities or individuals.

e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of

State, as well as of other appropriate agencies of the government. The Center, in coordination with the geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

N. Stephen Kane supervised the planning of this volume. John P. Glennon directed its final preparation. Mr. Kane compiled the multilateral sections except those on the meeting of the American Presidents and policy toward Central America which were done by Sherrill B. Wells and Delia Pitts, respectively. Joan N. Lee aided in the compilation on hemisphere defense. Mrs. Wells also prepared the compilation on Cuba, while Ms. Pitts compiled the remaining documentation in the volume.

The Documentary Editing Section under the supervision of Rita M. Baker performed technical editing in the Publishing Services Division (Paul M. Washington, Chief). Max Franke prepared the index.

William Z. Slany
The Historian
Bureau of Public Affairs

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The principal source of documentation for this volume was the indexed central (decimal) files of the Department of State. Documents from the central files were supplemented by materials from decentralized office and bureau files, the "lot" files of the Department of State, and Embassy files. The editors have also examined files of other Executive Branch agencies, including the Department of Defense and the International Cooperation Administration, and record collections at the Dwight D. Eisenhower Presidential Library. A list of the unpublished documentary sources used in the preparation of this volume follows. It is divided into three sections: the lot files maintained by the Department of State, with information concerning their origin, scope, and size; the files of other Executive Branch agencies; and record collections at the Eisenhower Library.

Department of State

ARA Files, Lot 58 D 564

Subject files relating to Venezuela for the period 1948–1956, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 59 D 2

Subject files relating to Cuba for the year 1957, as retired by the Office of Caribbiean and Mexican Affairs in the Bureau of Inter-American Affairs (Less than 1 ft.)

ARA Files, Lot 59 D 12

Subject files relating to Venezuela for the year 1957, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 59 D 73

Chile desk files for the year 1956, as retired by the Office of West Coast Affairs in the Bureau of Inter-American Affairs. (1 ft.)

ARA Files, Lot 59 D 509

Argentina desk files for the year 1956, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (1 ft.)

ARA Files, Lot 60 D 67

Subject and chronological files relating to Chile for the year 1957, as retired by the Office of West Coast Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Files, Lot 60 D 667

Subject files relating to Panama for the years 1955–1958, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (2 ft.)

ARA Files, Lot 62 D 308

Subject files relating to Brazil for the years 1956–1960, as retired by the Office of East Coast Affairs in the Bureau of Inter-American Affairs. (2 ft.)

ARA Deputy Assistant Secretary Files, Lot 58 D 691

Functional files of the Deputy Assistant Secretary of State for Inter-American Affairs (Thomas C. Mann, Robert Woodward, and Cecil B. Lyon) for the period 1951–1956, as maintained by the Office of the Deputy Assistant Secretary of State for Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 57 D 696

Subject files of the Special Assistant (Willliam L. Krieg and Spencer M. King) to the Assistant Secretary of State for Inter-American Affairs for the year 1955, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 58 D 749

Subject files of the Special Assistant (Spencer M. King) to the Assistant Secretary of State for Inter-American Affairs for the year 1956, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA Special Assistant's Files, Lot 59 D 376

Functional files of the Special Assistant (Spencer M. King and Henry A. Hoyt) to the Assistant Secretary of State for Inter-American Affairs for the year 1957, as maintained by the Office of the Special Assistant in the Bureau of Inter-American Affairs. (Less than 1 ft.)

ARA/REA Files, Lot 61 D 248

Chronological, country, and subject files relating to general economic matters for the years 1955–1959, including sugar and coffee, miscellaneous conferences files, and Mutual Security Program estimates, as retired by the Office of Inter-American Regional Economic Affairs. (2 ft.)

ARA/REA Files, Lot 63 D 87

Records relating to the Mutual Security Program, technical assistance, and the technical cooperation program of the Organization of American States in Latin America for the years 1955–1960, as retired by the Office of Inter-American Regional Economic Affairs. (1 1/2 ft.)

Cabinet Meetings, Lot 68 D 350

Records relating to various foreign policy subjects discussed at Presidential Cabinet meetings from 1953 to 1965, as maintained by the Executive Secretariat. (2 ft.)

Caracas Embassy Files, Lot 64 F 14

Top secret central files of the Embassy in Caracas, Venezuela, for the period 1948–1956, which form item 40 of Federal Records Center Accession 63 A 5159. (1 ft.)

Conference Files, Lot 62 D 181

Collection of documentation on official visits by heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for the period 1956–1958, as maintained by the Executive Secretariat. (18 ft.)

Current Economic Developments, Lot 70 D 467

Master set of the Department of State classified internal publication *Current Economic Developments* for the years 1945–1969, as maintained in the Bureau of Economic Affairs. (7 ft.)

E Files, Lot 60 D 136

Subject and country files of the Export-Import Bank, as retired by the Economic Development Division in the Bureau of Economic Affairs. (2 3/4 ft.)

Holland Files, Lot 57 D 295

Memoranda and exchanges of official-informal correspondence between Assistant Secretary of State for Inter-American Affairs Henry F. Holland and Chiefs of Mission in Latin American countries. (2 ft.)

INR–NIE Files

Files of National Intelligence Estimates, Special Estimates, and Special National Intelligence Estimates, retained by the Directorate for Regional Research in the Bureau of Intelligence and Research.

Intelligence Files, Lot 58 D 776

Country, subject, and administrative files relating to U.S. intelligence organization and activities for the years 1945–1960, as maintained in the Office of the Director of the Bureau of Intelligence and Research. (Combines lots 62 D 42, 61 D 67, 60 D 644, 58 D 776, 58 D 159, and 53 D 500) (11 ft.)

IO/OIC Files, Lot 73 D 227

Subject files relating to international conferences and meetings for the years 1958–1959 and 1965, including the Conference on the Problem of Surprise Attack, Inter-American Committee of Presidential Representatives, Fifth Meeting of Consultation of Ministers of Foreign Affairs of American States, and COCOM, as retired by the Office of International Conferences in the Bureau of International Organization Affairs. (2 ft.)

MID Files, Lot 57 D 59

Economic and political subject files relating to Cuba for the year 1955, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

MID Files, Lot 57 D 95

Chronological files for Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama for the years 1947–1956, including country briefing papers, monthly political summaries, and background material on the Meeting of the American Presidents in Panama in July 1956, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (3 ft.)

MID Files, Lot 58 D 103

Economic and political subject files relating to Cuba for the year 1956, as retired by the Office of Middle American Affairs in the Bureau of Inter-American Affairs. (1 1/4 ft.)

NAC Files, Lot 60 D 137

Master file of documents of the National Advisory Council on International Monetary and Financial Problems for the years 1945–1958, as maintained by the Bureau of Economic Affairs. (15 ft.)

OAP Files, Lot 59 D 6

Subject files relating to Guatemala for the year 1955, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

OAP Files, Lot 60 D 647

Guatemala desk files for the years 1956–1958, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (2 1/3 ft.)

OAP Files, Lot 61 D 110

Chronological and subject files relating to Central America for the years 1957–1958, including correspondence with Ambassador Whiting Willauer, Dr. Milton Eisenhower's trip to Central America in 1958, and activities of the United Fruit Company, as retired by the Office of Central American and Panamanian Affairs in the Bureau of Inter-American Affairs. (Less than 1 ft.)

OAS Files, Lot 60 D 665

Basic collection of records of meetings of the Organization of American States, other major inter-American governmental organizations, and inter-American conferences, together with related subject files for the years 1939–1962, as maintained by the Office of Inter-American Regional Political Affairs. (173 ft.)

OSA Files, Lot 58 D 42

Brazilian desk files for the years 1954–1955, as retired by the Office of South American Affairs in the Bureau of Inter-American Affairs. (12 ft.)

Panama City Embassy Files, Lot 63 F 57

Classified and unclassified central files of the Embassy in Panama City, Panama, and United States Information Service files for the years 1953–1958, which form item 1 of Federal Records Center Accession 64 A 845. (18 ft.)

Rubottom Files, Lot 59 573

Working files of Assistant Secretary of State for Inter-American Affairs Roy R. Rubottom, Jr., for 1957, as maintained by the Office of the Assistant Secretary of State for Inter-American Affairs. (1 1/2 ft.)

Secretary's Memoranda of Conversation, Lot 64 D 199

Chronological collections of the Secretary of State's memoranda of conversation and the Under Secretary of State's memoranda of conversation for the years 1953–1960, as maintained by the Executive Secretariat. (7 ft.)

Secretary's Staff Meetings, Lot 63 D 75

Chronological collections of the minutes of the Secretary of State's Staff meetings during the years 1952–1960, as maintained by the Executive Secretariat. (4 ft.)

S/P–NSC Files, Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for the years 1950–1961, as maintained by the Policy Planning Staff. (17 ft.)

S/S–NSC Files, Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for the years 1947–1961, as maintained by the Executive Secretariat. (20 ft.)

S/S–OCB Files, Lot 61 D 385

Master set of the administrative and country files of the Operations Coordinating Board for the years 1953–1960, as maintained in the Operations Staff. (25 ft.)

S/S–OCB Files, Lot 62 D 430

Master file of the Operations Coordinating Board for the years 1953–1960, as maintained by the Executive Secretariat. (3 ft.)

State–JCS Meetings, Lot 61 D 417

Top secret records of meetings between representatives of the Department of State and the Joint Chiefs of Staff for the period 1951–1959 and selected problem files on the Middle East for the period 1954–1956, as maintained by the Executive Secretariat. (3 ft.)

Sugar Files, Lot 65 D 212

Country and subject files relating to sugar for the years 1932–1962, as retired by the Office of International Resources in the Bureau of Economic Affairs, which form item 79 of of Federal Records Center Accession 71 A 6682. (3 ft.)

UNP Files, Lot 58 D 224

Miscellaneous country and subject files relating to political issues before the United Nations for the years 1943–1956, including the Collective Measures Committees (1951–1952), Palestine, and Suez, as retired by the Office of United Nations Political and Security Affairs in the Bureau of International Organization Affairs, and which form item 64 of Federal Records Center Accession 71 A 5255. (8 ft.)

Other Executive Agencies

ICA Director's File, FRC 61 A 32

ICA Director's subject file containing correspondence, memoranda, reports, messages, and other material accumulated during the period 1955–1958, as retired by the International Cooperation Agency, and which forms part of Federal Records Center Accession 61 A 32.

ICA Message Files, FRC 58 A 405

Telegrams, airgrams, and cables to and from ICA Missions, July 1, 1956–June 30, 1957. as maintained by ICA Headquarters in Washington.

JCS Records

Records of the United States Joint Chiefs of Staff, maintained by the National Archives and Records Service as Récord Group 218.

OASD/ISA Files

Records of the Office of the Assistant Secretary of Defense for International Security Affairs, arranged by countries and chronologically, which form parts of Federal Records Center Accessions 60 A 1025 (1955), 0 A 1339 (1956), and 61 A 1672 (1957).

Dwight D. Eisenhower Presidential Library

Eisenhower Library, CFEP Chairman Records

Records of the Office of the Chairman, United States Council on Foreign Economic Policy (Joseph M. Dodge and Clarence B. Randall), for the period 1954–1961.

Eisenhower Library, Fairless Committee Records, 1956–1957

Papers of the President's Citizen Advisers on the Mutual Security Program, established by President Eisenhower on September 22, 1956, to examine the foreign assistance activites of the United States.

Eisenhower Library, White House Central Files

Records of Dwight D. Eisenhower as President, White House Central Files, 1953–1961.

Eisenhower Library, Whitman File

Papers of Dwight D. Eisenhower as President of the United States, 1953–1961, maintained by his personal Secretary, Ann C. Whitman. The Whitman File includes the following elements: the Name Series, the Dulles–Herter Series, Eisenhower Diaries, Ann Whitman (ACW) Diaries, National Security Council Records, Miscellaneous Records, Cabinet Papers, Legislative Meetings, International Meetings, the Administration Series, and the International File.

List of Abbreviations and Symbols

Editor's Note—This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurance which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

A, airgram
ABC, Argentina, Brazil, Chile
AD, Acción Democrática (Democratic Action), a Venezuelan political party
AEC, Atomic Energy Commission
AFE, Administración de Ferrocarriles del Estado (State Railways Administration), Uruguay
AFL, American Federation of Labor
AFP (A&FP), American and Foreign Power Company
ANAC, Asamblea Nacional Constituyente (National Constitutent Assembly), Colombia
AR, Office of Regional American Affairs, Department of State
ARA, Bureau of Inter-American Affairs, Department of State
ARA/P, Public Affairs Adviser, Bureau of Inter-American Affairs
ASW, anti-submarine warfare
ATLAS, Asociación de Trabajadores de America Latina (Association of Latin American Workers)
AT.&T., American Telephone & Telegraph Company
BAEC, Buenos Aires Economic Conference
CA, Central America; circular airgram
CAB, Civil Aeronautics Board
CADE, Compañía Argentina de Electricidad (Argentine Electric Company)
CAP, Compañía de Acero del Pacifico (Pacific Steel Company), Chile
CCC, Commodity Credit Corporation, Department of Agriculture
CCT, Confederación Costarricense de Trabajadores (Costa Rican Confederation of Workers)
CEP, Chile, Ecuador, Peru
CFEP, Council on Foreign Economic Policy
CG, Consultative Group
CGT, Confederación General del Trabajo (General Confederation of Labor)
CIA, Central Intelligence Agency
CIC, Commission of Investigation and Conciliation, Organization of American States
CINCARIB, Commander in Chief, Caribbean
CIO, Congress of Industrial Organizations
cirtel, circular telegram
CMA, Compañía Mexicana de Aviación, S.A. (Mexican Aviation Company)
COAS, Council of the Organization of American States
COB, Central Obrera Boliviana (Bolivian Labor Central)

COCOM, Coordinating Committee of the Paris Consultative Group of nations working to control export of strategic goods to Communist countries
COMIBOL (CMB), Corporación Minera de Bolivia (Bolivian Mining Corporation)
CORFO, Corporación de Fomento de la Producción (Production Development Corporation), Chile
CPR, Committee of Presidential Representatives (of the Organization of American States)
CRS, Christian Relief Service
CSG, Consejo Sindical de Guatemala (Trade Union of Guatemala)
CTAL, Confederación de Trabajadores de America Latina (Confederation of Latin American Workers)
CTC, Confederación de Trabajadores de Cuba (Confederation of Cuban Workers)
CTM, Confederación de Trabajadores Mexicanos (Confederation of Mexican Workers)
CUTCH, Central Unica de Trabajadores de Chile (Central Workers Union of Chile)
D, member of the Democratic Party in the United States
DD/M, Office of the Deputy Director for Management, International Cooperation Administration
DD/O, Office of the Deputy Director for Operations, International Cooperation Administration
DD/P, Office of the Deputy Director for Programs and Planning, International Cooperation Administration
DD/S, Office of the Deputy Director for Technical Services, International Cooperation Administration
Del, delegate, delegation
Depcirtel, Department of State circular telegram
Deptel, Department of State telegram
DLF, Development Loan Fund (United Nations)
E, Assistant Secretary of State for Economic Affairs; Office of the Assistant Secretary of State for Economic Affairs
EA, Interdepartmental Committee on Economic Affairs
ECLA, Economic Commission for Latin America, United Nations
ECOAS, series indicator for telegrams to the U.S. Delegation, Economic Conference of the Organization of American States
ED, Investment and Development Staff, Office of Financial and Development Policy, Department of State
EDAC, Economic Defense Advisory Committee
Emb, Embassy
Embtel, Embassy telegram
ENAP, Empresa Nacional del Petróleo (National Petroleum Enterprise), Chile
EXIM Bank (Eximbank), Export-Import Bank of Washington
FBI, Federal Bureau of Investigation
FCN, Friendship, Commerce and Navigation (treaties)
FinMin, Finance Minister
FOA, Foreign Operations Administration
FonOff, Foreign Office
FRC, Federal Records Center
FSB, Falange Socialista Boliviana (Bolivian Socialist Falange)
FY, fiscal year
FYI, for your information
G, Deputy Under Secretary of State; Office of the Deputy Under Secretary of State
GATT, General Agreement on Tariffs and Trade
GMP, General Military Plan (for the defense of the American Continent)
GNP, gross national product
GOB, Government of Bolivia; Government of Brazil
GOC, Government of Chile, Government of Cuba
GOP, Government of Paraguay
GSA, General Services Administration
GUEST, Guest Aeróvias Mexico, Mexican National Airlines
H, Assistant Secretary of State for Congressional Relations; Office of the Assistant Secretary of State for Congressional Relations
HEW, Department of Health, Education, and Welfare

H.R., designation for legislation introduced in the House of Representatives
IAC, Intelligence Advisory Committee
IADB, Inter-American Defense Board
IA-ECOSOC, Inter-American Economic and Social Council
IAEA, International Atomic Energy Agency
IAGS, Inter-American Geodetic Survey
IAH, Inter-American Highway
IBRD, International Bank for Reconstruction and Development
ICA, International Cooperation Administration
ICBM, Intercontinential Ballistic Missile
IC/DV, Import Certificate-Delivery Verification
ICFTU, International Confederation of Free Trade Unions
ICJ, International Court of Justice
IFC, International Finance Corporation
IIAA, Institute of Inter-American Affairs
IL, International List (of embargoed goods)
ILO, International Labor Organization
IMF, International Monetary Fund
INFOP, Instituto de Fomento de la Producción (Production Development Institute)
INR, Bureau of Intelligence and Research, Department of State
IRBM, Intermediate-Range Ballistic Missile
IRCA, International Railways of Central America
IRD, International Resources Division, Bureau of Economic Affairs, Department of State
ISA, Assistant Secretary of Defense for International Security Affairs; Office of the Assistant Secretary of Defense for International Security Affairs
JBUSMC, Joint Brazil-United States Military Commission
JCS, Joint Chiefs of Staff
L/ARA, Office of the Assistant Legal Adviser for Inter-American Affairs; the Assistant Legal Adviser for Inter-American Affairs
LA, Latin America
LACSA, Líneas Aéreas Costarricenses (Costa Rican Airlines)
LORAN, Long Range Navigational Aid
LPG, Legislative Program Group, Department of State
MAAG, Military Assistance Advisory Group
MAP, Military Assistance Program
MC, Memorandum of Conversation
MDA, Mutual Defense Assistance
MDAC, Mutual Defense Assistance Control
MDAP, Mutual Defense Assistance Program
MDN, Movimiento Democrática Nacionalista (National Democratic Movement), a Guatemalan political party
MFN, most favored nation
MID, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State
mil, military
MinFin, Minister of Finance
MINMET, Minerales y Metales, S.A. (Minerals and Metals, Inc.), an Argentine mining company
MNR, Movimiento Nacionalista Revolucionario (Nationalist Revolutionary Movement), a Bolivian political party
MSA, Mutual Security Agency; Mutual Security Act
mytel, my telegram
MSP, Mutual Security Program
NAC, National Advisory Council
NATO, North Atlantic Treaty Organization
NCG, National Council of Government
niact, night action, communication indicator requiring attention by the recipient at any hour of the day or night
NIE, National Intelligence Estimate
NSC, National Security Council
OAS, Organization of American States
OCB, Operations Coordinating Board
ODECA, Organización de Estados Centroamericanos (Organization of Central American States)
ODM, Office of Defense Mobilization
ODVA, Organisme de Développement de la Valle de l'Artibonite Haiti (Artibonite Valley Development Agency of Haiti)

OFD, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State
OILA, Office of International Labor Affairs, Department of Labor
OISP, Overseas International Security Program
OR, Office of International Resources, Bureau of Economic Affairs, Department of State
ORIT, Organización Regional Interamericana de Trabajadores (Inter-American Regional Organization of Workers)
OSA, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State
OT, Office of International Trade, Bureau of Economic Affairs, Department of State
PC, participating country
PCB, Partido Comunista do Brasil (Brazilian Communist Party)
PEMEX, Petróleos Mexicanos, S.A. (Mexican Petroleum, Inc.)
PGT, Partido Guatemalteco de Trabajadores (Guatemalan Labor Party)
PL, Public Law
POL, petroleum, oil, and lubricants
PR, Partido Revolucionario de Guatemala (Guatemalan Revolutionary Party)
PRI, Partido Revolucionario Institutional (Institutional Revolutionary Party), Mexican political party
PRP, Partido de Representacao Popular (Popular Representative Party), Brazilian political party
PSD, Partido Social Democratico (Social Democratic Party), Brazilian political party
PTB, Partido Trabalhista Brasileiro (Brazilian Labor Party)
PURS, Partido Unión Republicana Socialista (Socialist Republican Union Party), Bolivian political party
R, Special Assistant for Intelligence, Department of State; Office of the Special Assistant for Intelligence, Department of State; member of the Republican Party in the United States
REA, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State
reftel, reference telegram
Rerum Novarum, a confederation of Costa Rican labor unions
RPA, Office of Inter-American Regional Political Affairs, Bureau of Inter-American Affairs, Department of State
S/AE, Special Assistant to the Secretary of State for Atomic Energy Matters
S/MSA, Special Assistant to the Secretary of State for Mutual Security Affairs
S/P, Policy Planning Staff, Department of State
S/S, Executive Secretariat, Department of State
SCISP, Servicio Cooperativo Interamericano de Salud Pública (Inter-American Cooperative Public Health Service)
SEATO, Southeast Asia Treaty Organization
Secto, series indicator for telegrams to the Department of State from the Secretary of State (or his delegation) at international conferences
SENDAS, Secretariado Nacional de Asistencia Social (National Secretariat of Social Assistance), Colombia
SHADA, Socíeté Haitiano-Americaine de Développement Agricole (Haitian-American Society for Agricultural Cooperation)
SN, Seguridad Nacional (National Security), Venezuelan internal security agency
SNIE, Special National Intelligence Estimate
SOAEC, series indicator for telegrams from the U.S. Delegation, Economic Conference of the Organization of American States
SOMISA, Sociedad Mixta Siderúrgica Argentina (Mixed Steel Company of Argentina)
TAC, Transit Authorization Certificate
Tosec, series indicator for telegrams from the Department of State to the Secretary of State (or his delegation) at international conferences

TRC, Office of Transport and Communications, Bureau of Economic Affairs, Department of State
U, Office of the Under Secretary of State
UDN, União Democrática Nacional (National Democratic Union), Brazilian polilical party
U/FW, Special Assistant to the Under Secretary of State for Fisheries and Wildlife
U/MSA, Special Assistant to the Under Secretary of State for Mutual Security Affairs
UNEF, United Nations Emergency Force
UNICEF, United Nations Children's Fund
UNTAA, United Nations Technical Assistance Administration
USA, United States Army
USAF, United States Air Force
USDel, United States Delegation
USIA, United States Information Agency
USIS, United States Information Service
USMC, United States Marine Corps
USN, United States Navy
USOM, United States Operations Mission
UTE, Administración General de las Usinas Electricas y los Telefonos del Estado (General Administration of State Electric Power and Telephone Services), Uruguay
W, Deputy Under Secretary of State for Economic Affairs; Office of the Deputy Under Secretary of State for Economic Affairs
XMB, Export-Import Bank of Washington
YPF, Yacimientos Petrolíferos Fiscales (National Petroleum Company)
YPFB, Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian National Petroleum Corporation)

List of Persons

Editor's Note—The individuals identified below were principal participants in the events covered in this volume. Other officials and individuals not included in the list are identified in footnotes to the text at appropriate places. In general, persons attending but not participating in meetings, and those mentioned only in passing have not been identified. Identifications are limited to circumstances and positions under reference in this volume. All titles and positions are North American unless otherwise indicated. Wherever possible dates of tenure and the spelling of names follow the information provided in official publications of the countries concerned.

Achilles, Theodore C., Ambassador to Peru from July 24, 1956

Adams, Sherman, the Assistant to the President

Ageton, Arthur A., Ambassador to Paraguay until April 10, 1957

Aguilar Cornejo, David, Peruvian Minister of Foreign Affairs until December 24, 1955

Alkmin, José María, Brazilian Minister of Finance from January 31, 1956

Anderson, Dillon, Special Assistant to the President for National Security Affairs, April 2, 1955-September 1, 1956; White House Consultant from June 29, 1957

Anderson, Robert B., Deputy Secretary of Defense until August 4, 1955; Secretary of the Treasury from July 29, 1957

Andrade Uzquiano, Víctor, Brazilian Ambassador to the United States

Aramburu, Major General Pedro Eugenio, member, Argentine ruling military junta, September 21-November 13, 1955; thereafter, Provisional President and Chairman of the military junta

Araujo, Alfonso, Colombian Ambassador to the United Nations from September 1957

Arey, Hawthorne, Director, Export-Import Bank

Arias Espinosa, Ricardo M., President of Panama, January 15, 1955-October 1, 1956; Ambassador to the United States from December 1956

Arismendi, José Loreto, Venezuelan Minister of Education until February 1956; thereafter, Minister of Foreign Affairs

Armour, Norman, Ambassador to Guatemala until May 9, 1955

Armstrong, W. Park, Jr., Special Assistant to the Secretary of State for Intelligence until May 5, 1957

Armstrong, Willis C., Deputy Director, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State, January 15, 1955-June 1, 1957; Director, Office of International Resources, June 1-August 6, 1957; thereafter, Acting Deputy Assistant Secretary of State for Economic Affairs

Atwood, Rollin S., Director, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until October 10, 1955; Acting Regional Director for Latin American Operations, International Cooperation Administration, October 10, 1955-June 17, 1956; thereafter, Director

Barbosa Baeza, Enrique O., Chilean Minister for Foreign Affairs, January 1955-May 1956

Barnes, Robert G., Deputy Director, Executive Secretariat, Department of State, June 12-August 1, 1955; Director, Executive Secretariat, August 1, 1955-March 11, 1956; thereafter, Special Assistant to the Under Secretary of State for Mutual Security Affairs

Barrau Peláez, Manuel, Bolivian Foreign Minister from August 6, 1956

Barron Sánchez, Rear Admiral Emilio, Peruvian Minister of the Navy from July 1956

Batista y Zaldívar, Fulgencio, President of Cuba

Batlle Berres, Luís, member, National Council of Government of Uruguay from 1955; President of that Council, March 1955-March 1956

Beaulac, Willard L., Ambassador to Chile until May 28, 1956; Ambassador to Argentina from June 1, 1956

Beckmann, Conrado Carlos, Argentine Ministry of Foreign Relations; Secretary General of the Economic Conference of the Organization of American States, August 15-September 4, 1957

Belton, William, Officer in Charge of West Coast Affairs, Office of South American Affairs, Department of State, until January 30, 1956; Deputy Director, Office of South American Affairs, January 30-July 14, 1956; thereafter, Counselor, Embassy in Chile

Bennett, William Tapley, Jr., Special Assistant to the Deputy Under Secretary of State, August 9, 1955-September 8, 1957

Benson, Ezra Taft, Secretary of Agriculture

Berckemeyer, Fernando, Peruvian Ambassador to the United States

Bernbaum, Maurice M., Counselor, Embassy in Venezuela until September 2, 1955; thereafter, Director, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

Betancourt, Rómulo, organizer and leader of the Acción Democrática political party in Venezuela; in political exile, 1948-1958

Bishop, Max W., Operations Coordinator, Department of State, until December 3, 1955

Black, Eugene R., President and Chairman of the Executive Directors, International Bank for Reconstruction and Development

Bonsal, Philip W., Ambassador to Colombia, April 1, 1955-April 24, 1957; Ambassador to Bolivia from May 10, 1957

Bowdler, William G., Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until July 18, 1956; Office of Inter-American Regional Political Affairs, July 18-October 17, 1956; Secretary, Inter-American Committee for Presidential Representatives of the Organization of American States, October 17-December 30, 1956; Vice-Consul, Embassy in Cuba, December 30, 1956- January 29, 1957; thereafter, Second Secretary and Consul

Bowie, Robert R., Director, Policy Planning Staff, Department of State, until October 18, 1957; Assistant Secretary of State for Policy Planning, August 10, 1955-October 18, 1957; Department of State member, National Security Council Planning Board, August 28, 1955-October 18, 1957

Boyd, Aquilino E., Panamanian Minister of Foreign Affairs from October 1956

Brand, Vance, member, Board of Directors, Export-Import Bank

Briggs, Ellis O., Ambassador to Peru, May 27, 1955-June 5, 1956; Ambassador to Brazil from July 24, 1956

Brownell, Herbert, Jr., Attorney General of the United States

Brundage, Percival F., Deputy Director, Bureau of the Budget, until April 1, 1956; Director from April 2, 1956; member, Advisory Board on Economic Growth and Stability, Council of Economic Advisers, from 1956

Burgess, W. Randolph, Under Secretary of the Treasury for Monetary Affairs until September 26, 1957; thereafter, U.S. Permanent Representative to the North Atlantic Treaty Organization

Burke, Admiral Arleigh A., USN, Chief of Naval Operations, Joint Chiefs of Staff, from August 17, 1955

Cabot, John M., Ambassador to Colombia from July 12, 1957

Cabell, General Charles P., Deputy Director for Central Intelligence

Café Filho, João, President of Brazil until November 8, 1955

Cale, Edward G., Director, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until June 3, 1956; thereafter, Economic Counselor, Embassy in Argentina

Callanan, Paul E., International Resources Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State

Câmara, Mário, Brazilian Minister of Finance, October 1955-January 1956

Carías Castillo, Tiburcio, Jr., Honduran Ambassador to the United States from October 15, 1957

Carillo Flores, Antonio, Mexican Secretary of the Treasury and Public Credit

Carney, Admiral Robert B., USN, Chief of Naval Operations to August 1955

Castillo Armas, Colonel Carlos, President of Guatemala until July 26, 1957

Chapin, Selden, Ambassador to Panama until May 29, 1955

Chiriboga Villagómez, José Ricardo, Ecuadoran Ambassador to the United States until July 16, 1956; and again from December 19, 1956

Cisneros Sánchez, Manuel, Peruvian Premier and Minister of Foreign Affairs from July 2, 1956

Coll Benegas, Carlos, President, Banco de la Nación, Argentina; Chief of the Argentine Financial Mission to the United States, June-September 1956

Corbett, Jack C., Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State, until autumn of 1957

Corliss, James C., Acting Adviser and Alternate U.S. Representative, IA-ECOSOC until May 16, 1956; thereafter, Financial Adviser, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State

Corse, Carl D., Chief, Trade Agreements and Treaties Division, Bureau of Economic Affairs, Department of State, January 15, 1955-June 1, 1957; Acting Deputy Director, Office of International Trade, June 1-November 3, 1957; thereafter, Adviser, Office of International Trade

Cottrell, Sterling J., Officer in Charge of Brazilian Affairs, Bureau of Inter-American Affairs, Department of State, until July 17, 1955; detailed to the Naval War College, July 17, 1955-July 15, 1956

Cruz Salazar, Jose Luis, Guatemalan Ambassador to the United States

Cutler, Robert, Special Assistant to the President for National Security Affairs until April 1, 1955

Davis, Vice Admiral Arthur C., Deputy Assistant Secretary of Defense for International Security Affairs until October 1, 1955

Davis, Bainbridge C., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until January 30, 1956; Officer in Charge of North Coast Affairs, January 30, 1956-December 1, 1957; thereafter, Consul at Colon

Davis, Roy Tasco, Ambassador to Haiti until March 9, 1957

de la Campa y Caraveda, Miguel Angel, Cuban Ambassador to the United States

Dearborn, Henry, Officer in Charge of River Plate Affairs, Office of South American Affairs, Department of State, unitl January 30, 1955; Deputy Director, Office of South American Affairs, January 30-December 31, 1955; thereafter, First Secretary and Counselor, Embassy in Peru

Dillon, C. Douglas, Deputy Under Secretary of State for Economic Affairs from March 15, 1957

Dodge, Joseph M., Special Assistant to the President and Chairman, Council on Foreign Economic Policy, until 1956

Dreier, John C., U.S. Representative with personal rank of Ambassador to the Council of the OAS until May 15, 1956; thereafter, Acting Director, Office of Inter-American Regional Political Affairs, Bureau of Inter-American Affairs, Department of State

Dre r, Gerald A., Ambassador to Bolivia until April 6, 1957; Ambassador to Haiti from May 15, 1957

Dulles, Allen W., Director for Central Intelligence

Dulles, John Foster, Secretary of State

Dunn, James Clement, Ambassador to Spain, until February 9, 1955; Ambassador to Brazil, March 11, 1955-July 4, 1956

Duvalier, Françoís, President of Haiti from October 22, 1957

Edgerton, Glen E., President, Chairman, and Managing Director of the Export-Import Bank until 1956

Eisenhower, Dwight D., President of the United States

Eisenhower, Milton, Special Ambassador and Personal Representative of the President on Latin American Affairs

Encisco Belloso, Guillermo, Paraguayan Ambassador to the United States until December 1956

Fábrega, Octavio, Panamanian Minister of Foreign Affairs until October 1956

Farland, Joseph S., Ambassador to the Dominican Republic from August 7, 1957

Fernándes, Raúl, Brazilian Minister of Foreign Affairs until November 12, 1955

Fignole, Daniel, Provisional President of Haiti, May 26-June 14, 1957

Figueres Ferrer, José, President of Costa Rica

Fishburn, John T., Labor Adviser, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until September 8, 1957; thereafter, First Secretary and Labor Attaché, Embassy in Brazil

FitzGerald, Dennis A., Deputy Director for Operations, Foreign Operations Administration until June 30, 1955; thereafter, Deputy Director for Operations, International Cooperation Administration

Flemming, Arthur S., Director, Office of Defense Mobilization until February 1957

Flores Avendaño, Guillermo, Provisional President of Guatemala from October 27, 1957

Gray, Gordon, Assistant Secretary of Defense for International Security Affairs, July 14, 1955-February 27, 1957; Director, Office of Defense Mobilization from March 4, 1957

Guimoye Hernández, Emilio, Peruvian Minister of Finance and Commerce until December 24, 1955; Commercial Counselor, Peruvian Embassy in the United States from July 1956

Guizado Valdes, José Ramón, First Vice President and Foreign Minister of Panama until January 2, 1955; President of Panama, January 2-15, 1955
Gútierrez Gomez, José, Colombian Ambassador to the United States from June 1957

Hagerty, James C., Secretary to the President
Hanes, John W., Special Assistant to the Secretary of State until April 8, 1957; thereafter, Deputy Assistant Secretary of State for International Organization Affairs
Hanford, Colonel Thomas B., USA, Regional Director, Western Hemisphere, Office of the Assistant Secretary of Defense for International Security Affairs, from 1956
Harley, Charles R., Chief, Latin American Division, Office of International Finance, Department of the Treasury, from 1956
Harrington, Julian F., Ambassador to Panama from August 30, 1955
Hauge, Gabriel, Administrative Assistant to the President until 1957; Special Assistant to the President from 1957
Henderson, Loy W., Deputy Under Secretary of State for Administration from January 26, 1955
Hensel, H. Struve, Assistant Secretary of Defense for International Security Affairs until June 30, 1955
Herrera Palacios, Oscar, Chilean Minister of Education, January-August, 1955; Minister of Economy, August-October 1955; Minister of Finance and Economy, October 1955-August 1956
Herter, Christian A., Governor of Massachusetts until January 1957; Consultant to the Secretary of State, January 14-February 21, 1957; thereafter, Under Secretary of State
Hill, Robert C., Ambassador to El Salvador until September 21, 1955; Special Assistant to the Under Secretary of State for Mutual Security Affairs, October 12, 1955-March 9, 1956; Assistant Secretary of State for Congressional Relations, March 9, 1956-June 26, 1957; Ambassador to Mexico from July 25, 1957
Hilton, Ralph, Bureau of Inter-American Affairs, Department of State, until December 19, 1955; Policy Planning Adviser, Bureau of Inter-American Affairs, December 19, 1955-February 1, 1956; Special Assistant to the Assistant Secretary of State for Inter-American Affairs, February 1, 1956-February 10, 1957; thereafter, Counselor, Embassy in Paraguay
Holland, Henry F., Assistant Secretary of State for Inter-American Affairs until September 13, 1956
Hollister, John B., Consultant to the Secretary of State, May 2-July 1, 1955; Director, International Cooperation Administration, July 1, 1955-September 15, 1957
Hoover, Herbert, Jr., Under Secretary of State until February 5, 1957
Howe, Fisher, Deputy Special Assistant for Intelligence, Department of State, until March 12, 1956; thereafter, Director, Executive Secretariat
Hoyt, Henry A., Officer in Charge of Caribbean Affairs, Office of Middle American Affairs, Department of State, until August 12, 1956; detailed to the National War College, August 12, 1956-June 30, 1957; thereafter, Special Assistant to the Assistant Secretary of State for Inter-American Affairs
Hughes, Rowland R., Director, Bureau of the Budget, until April 1, 1956
Humphrey, George M., Secretary of the Treasury until July 28, 1957

Ibáñez del Campo, General Carlos, President of Chile
Irwin, John N., II, Deputy Assistant Secretary of Defense for International Security Affairs (Military Assistance Programs), from 1957

Izaguirre, General Carlos, Honduran Ambassador to the United States, May 5, 1955-May 1956

Jamison, Edward A., Deputy Director, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until August 14, 1955; detailed to the National War College, August 14, 1955-July 29, 1956; thereafter, Counselor-Consul, Embassy in Costa Rica

Kalijarvi, Thorsten V., Deputy Assistant Secretary of State for Economic Affairs until March 14, 1957; Assistant Secretary of State for Economic Affairs, March 15-September 26, 1957; Ambassador to El Salvador from December 6, 1957

Kemper, James S., Ambassador to Brazil until January 26, 1955

King, Spencer M., Special Assistant, Office of the Assistant Secretary of State for Inter-American Affairs, August 14, 1955-August 25, 1957; thereafter, detailed to the National War College

Krieg, William L., Counselor, Embassy in Guatemala until January 16, 1955; Special Assistant to the Assistant Secretary of State for Inter-American Affairs, January 16-August 14, 1955; detailed to National War College, August 14, 1955-July 16, 1956; Deputy Director, Office of Inter-American Regional Political Affairs, Department of State, from July 16, 1956; also in charge of Public Relations Affairs of that Office from December 19, 1956

Kreiger Vasena, Adalberto, member of the Argentine Financial Mission to the United States, June-September 1956; Argentine Minister of Finance from March 1957

Kubitschek de Oliveira, Juscelino, President of Brazil from January 1956

Laferrère, Alfonso de, Argentine Ambassador to Chile until January 1956; Argentine Minister of Foreign Affairs from January 1957

Lay, James S., Jr., Executive Secretary of the National Security Council

Lechín Oquendo, Juan, Bolivian labor leader, Executive Secretary of the Bolivian Workers Confederation; Vice President of Bolivia and President of the Bolivian Senate from August 6, 1956

Leddy, John M., Office of the Assistant Secretary of State for Economic Affairs until October 3, 1955; Special Assistant to the Assistant Secretary of State for Economic Affairs, October 3, 1955-October 20, 1957; Adviser to the U.S. Delegation to the Economic Conference of the Organization of American States; Special Assistant to the Deputy Under Secretary of State for Economic Affairs from October 20, 1957

Léger, Jacques, Haitian Ambassador to the United States

Leonhardy, Terrace G., International Relations Officer, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, from July 17, 1955

Lezama, Arturo, President of the National Council of Government of Uruguay from March 1, 1957

Lleras Camargo, Alberto, President of Colombia, 1945-1946; Secretary General of the Organization of American States, 1947-August 1, 1954; Head of the Colombian Liberal Party, 1956–1957

Llosa, Admiral Luis Edgardo, Naval Attaché, Peruvian Embassy in the United States; Foreign Minister, December 24, 1955-June 1956

Lodge, Henry Cabot, Jr., the Permanent Representative of the United States at the United Nations

Lonardi, Major General Eduardo A., Provisional President of Argentina, September 21-November 13, 1955

Lozano Díaz, Julio, Honduran Head of State until October 21, 1956

Lyon, Cecil B., Deputy Assistant Secretary of State for Inter-American Affairs, June 28, 1955-May 10, 1956; Ambassador to Chile from June 15, 1956

MacArthur, Douglas, II, Counselor of the Department of State until November 24, 1956

Macy, Robert M., Chief of the International Division, Bureau of the Budget

Magloire, Paul E., President of Haiti until December 12, 1956

Mann, Thomas C., Counselor, Embassy in Guatemala, September 16, 1954-November 24, 1955; Ambassador to El Salvador, November 24, 1955-September 24, 1957; Assistant Secretary of State for Economic Affairs from September 30, 1957

McConnell, James A., Assistant Secretary of Agriculture until 1956

McGinnis, Edgar L., Jr., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until June 30, 1956

McGuire, E. Perkins, Deputy Assistant Secretary of Defense for International Security Affairs, January-December 1956; thereafter, Assistant Secretary of Defense for Supply and Logistics

McIntosh, Dempster, Ambassador to Uruguay until April 3, 1956; Ambassador to Venezuela, April 26, 1956-December 27, 1957

Meany, George, President of the American Federation of Labor-Congress of Industrial Organizations

Memminger, Robert B., Counselor, Embassy in Panama until November 6, 1955; Officer in Charge of Central American and Panamanian Affairs, Bureau of Inter-American Affairs, Department of State, November 6, 1955-July 1, 1956

Meyer, Joaquín, Financial Counselor, Cuban Embassy in the United States and Representative of the Cuban Sugar Stabilization Institute

Miller, Edward G., Jr., Assistant Secretary of State for Inter-American Affairs, June 28, 1949-December 31, 1952

Mills, Sheldon T., Ambassador to Ecuador until April 6, 1956

Minnich, L. Arthur, Jr., Assistant Staff Secretary in the White House

Monsma, George N., Officer in Charge of International Organization Affairs, Department of State, until May 16, 1956; Officer in Charge, Inter-American Organizations, Office of Inter-American Regional Political Affairs from May 16, 1956

Mora, José A., Uruguayan Ambassador to the United States until April 1956; thereafter, Secretary General of the Organization of American States

Morse, True D., Under Secretary of Agriculture

Mulliken, Jean H., Officer in Charge, Commodities and Commercial Policy, Office of Regional American Affairs, Department of State

Muniz, João Carlos, Brazilian Ambassador to the United States until June 1956; thereafter, Ambassador to Argentina

Murphy, Robert D., Deputy Under Secretary of State for Political Affairs

Myers, Lawrence, Director, Sugar Division, Department of Agriculture

Neal, Jack D., Deputy Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, until May 6, 1956; then Director, May 6, 1956-May 5, 1957; thereafter, Counselor, Embassy in Peru

Newbegin, Robert, Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State, until May 6, 1956; thereafter, Deputy Assistant Secretary of State for Personnel

Nichols, Clarence, W., Deputy Director, Office of International Minerals Policy, Department of State, until January 15, 1955; Chief, International Resources Division, January 15, 1955-October 1, 1956; Deputy Director, Office of

International Trade and Resources, October 1, 1956-June 1, 1957; thereafter, Deputy Director, Office of International Resources

Nixon, Richard M., Vice President of the United States

Nolan, Charles P., Officer in Charge, Transportation and Communications, Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until July 15, 1956; thereafter, First Secretary-Commercial Attaché, Embassy in Argentina

Nolting, Frederick E., Jr., Special Assistant to the Secretary of State for Mutual Security Affairs until September 25, 1955

Nufer, Albert F., Ambassador to Argentina until May 12, 1956

O'Conner, James F., Jr., Office of South American Affairs, Bureau of Inter-American Affairs, Department of State, until October 2, 1955; thereafter, Second Secretary of the Embassy in Argentina

O'Connor, Roderic L., Special Assistant to the Secretary of State until December 1, 1955; Deputy Assistant Secretary of State for Congressional Relations, December 1, 1955-May 28, 1957; Administrator, Bureau of Security and Consular Affairs from May 28, 1957

Odría y Amoretti, Manuel A., President of Peru until July 28, 1956

O'Ryan, Admiral Juan Francisco, Chilean Minister of Defense, January 1955-October 1957; thereafter, Minister of the Interior

Osorio, Lieutenant Colonel Oscar, President of El Salvador until September 14, 1956

Otáñez, Aureliano, Venezuelan Minister of Foreign Affairs until February 1956

Overby, Andrew N., Assistant Secretary of the Treasury until February 28, 1957

Patterson, Jefferson, Ambassador to Uruguay from May 2, 1956

Paz Estenssoro, Víctor, President of Bolivia until August 6, 1956

Paz, Hipólito Jesús, Argentine Ambassador to the United States until October 1956

Pearson, Norman, Staff Assistant to the Assistant Secretary of State for Inter-American Affairs until January 29, 1956; thereafter, First Secretary and Consul, Embassy in Uruguay

Peixoto, Ernai Amaral do, Brazilian Ambassador to the United States from July 1956

Pérez Jiménez, General Marcos, President of Venezuela

Perón, Juan Domingo, President of Argentina until September 22, 1955

Pheiffer, William T., Ambassador to the Dominican Republic until June 2, 1957

Phleger, Herman, Legal Adviser of the Department of State to April 1957

Pierre-Louis, Joseph Nemours, Haitian President of the Court of Cassation; President of Haiti, December 13, 1956-October 22, 1957

Ploesser, Walter C., Ambassador to Paraguay from November 6, 1957

Podestá Costa, Luis A., Argentine Minister of Foreign Affairs, November 1955-January 1957

Ponce Enríquez, Camilo, President of Ecuador from June 3, 1956

Prado Ugarteche, Manuel, President of Peru from July 28, 1956

Prat Echaurren, Jorge, Chilean Minister of Finance until February 1955

Prebisch, Raúl, Argentine Economist; Executive Secretary, United Nations Economic Commission on Latin America (ECLA)

Prochnow, Herbert V., Deputy Under Secretary of State for Economic Affairs, November 7, 1955-November 11, 1956

Puga Vega, Mariano, Chilean Ambassador to the United States from March 1957

Radford, Admiral Arthur W., USN, Chairman of the Joint Chiefs of Staff until August 14, 1957

Radius, Walter A., Special Assistant to the Deputy Assistant Secretary of State for Economic Affairs until July 15, 1956

Randall, Clarence B., Special Consultant to the President; Chairman, Council on Foreign Economic Policy, from July 10, 1956

Randall, Harold M., Office of Regional American Affairs, Bureau of Inter-American Affairs, Department of State, until August 22, 1955; thereafter, United States Representative to the Inter-American Economic and Social Council of the Organization of American States, with personal rank of Ambassador

Ravndal, Christian M., Ambassador to Ecuador from August 29, 1956

Remón Cantera, Colonel Jose Antonio, President of Panama until assassinated on January 2, 1955

Remorino, Jerónimo, Argentine Minister of Foreign Affairs and Worship until August 1955

Richards, Arthur L., Operations Coordinator, Office of the Under Secretary of State, from January 16, 1956

Robinson, Hamlin, Special Assistant to the Director, Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State, until March 18, 1956; Special Assistant, Office of the Deputy Under Secretary of State for Economic Affairs, March 18, 1956-spring 1957; thereafter, Special Assistant, Office of the Assistant Secretary of State for Economic Affairs

Rockefeller, Nelson A., Special Assistant to the President until December 31, 1955; Vice Chairman (representing the President), Operations Coordinating Board, 1955–1956

Roderick, George H., Assistant Secretary of the Army for Financial Management until 1955, and again from 1957; Assistant Secretary of the Army for Civil-Military Affairs, 1955–1957

Rodriquez Altamirano, Mario, Chilean Ambassador to the United States, February 1956-March 1957

Rojas, Rear Admiral Isaac Francisco, Provisional Vice President of Argentina, September 25-November 13, 1955; thereafter, Vice President and member of the Junta

Rojas Pinilla, General Gustavo, President of Colombia until May 10, 1957

Rompani, Santiago I., Uruguayan Foreign Minister, March 1955-May 1956

Rosenson, Alexander M., Chief, Monetary Affairs Staff, Department of State, until June 3, 1955; Attaché, Embassy in Chile, June 3-July 5, 1955; First Secretary and Consul, July 5, 1955-January 1, 1956; Office of Regional American Affairs, Department of State, January 1-May 16, 1956; thereafter, Officer in Charge of Economic Development, Office of Inter-American Regional Economic Affairs

Rowell, Edward J., Counselor, Embassy in Bolivia, until July 21, 1955; Officer in Charge of Brazilian Affairs, Bureau of Inter-American Affairs, Department of State, July 21, 1955-October 21, 1956; thereafter, Officer in Charge of Social Affairs, Office of International Economic and Social Affairs

Rowntree, R. Henry, Chief, Economics Division, Export-Import Bank, from 1956

Rubottom, Roy R., Jr., Counselor of the Embassy and Deputy Chief of the U.S. Operations Mission (USOM) in Spain until April 24, 1955; Director of the USOM in Spain and Embassy Counselor, April 24, 1955-May 16, 1956; Deputy Assistant Secretary of State for Inter-American Affairs, May 16-September 14, 1956; Acting Assistant Secretary, September 14, 1956-June 18, 1957; thereafter, Assistant Secretary

Ruiz Cortines, Adolfo, President of Mexico

Sainte Marie Sorucco, Osvaldo, Chilean Minister of Mines, January 1955-May 1956; Minister of Foreign Affairs, May 1956-April 1957; Minister of Foreign Affairs and Mines, April-October 1957

Salazar, Joaquín E., Dominican Ambassador to the United States, February 21, 1955-May 1957

Saldías, Admiral Roque A., Peruvian Minister of the Navy and President of the Council of Ministers until December 24, 1955; Premier and Minister of Finance and Commerce, December 24, 1955-July 2, 1956

Sánchez Quell, Hipólito, Paraguayan Minister for Foreign Affairs until May 1956

Sanders, Terry B., Jr., Policy Coordinator, Department of State, until August 14, 1955; Officer in Charge, Inter-American Security and Military Assistance Affairs, Bureau of Inter-American Affairs, August 14, 1955-July 1, 1956; thereafter, Deputy Director, Office of South American Affairs

Sapena Pastor, Raúl, Paraguayan Minister of Foreign Affairs from June 1, 1956

Sauer, Walter C., Executive Vice President of the Export-Import Bank

Sayre, Robert M., Office of Regional American Affairs, Department of State, until June 18, 1956; Acting Officer in Charge, Inter-American Security and Military Assistant Affairs, June 18, 1956-July 28, 1957; thereafter, Second Secretary, Embassy in Peru

Scott, Walter K., Director, Executive Secretariat, Department of State, until August 1, 1955; thereafter, Deputy Director for Management, International Cooperation Administration

Sevilla-Sacasa, Guillermo, Nicaraguan Ambassador to the United States

Seybold, Brigadier Geneneral John S., Governor of the Panama Canal Zone until May 1956

Shepherd, General Lemuel C., Jr., USMC, Commandant of the Marine Corps until retirement, January 1, 1956; Chairman, Inter-American Defense Board from March 1956

Silberstein, Joseph A., Financial Officer, Embassy in Chile, until January 15, 1956; Office of South American Affairs, Department of State, January 15-November 4, 1956; thereafter, Officer in Charge of West Coast Affairs, Office of South American Affairs

Siles Zuazo, Hernán, Vice President of Bolivia until August 6, 1956; thereafter, President of Bolivia

Siracusa, Ernest V., First Secretary and Counselor, Embassy in Argentina, until January 15, 1956; Office of South American Affairs, Department of State, January 15-30, 1956; Officer in Charge of West Coast Affairs, January 30-November 4, 1956, thereafter, Officer in Charge of Brazilian Affairs

Smathers, George A., Democratic Senator from Florida; member, Senate Finance Committee and Senate Interstate and Foreign Commerce Committee

Smith, Earl E. T., Ambassador to Cuba from July 23, 1957

Snow, William P., Minister-Counselor, Embassy in Mexico, until June 16, 1957; thereafter, Deputy Assistant Secretary of State for Inter-American Affairs

Somoza García, Anastasio, President of Nicaragua until September 29, 1956

Southard, Frank A., Jr., Special Assistant to the Secretary of the Treasury and U.S. Executive Director, International Monetary Fund

Sowash, William P., Office of Middle American Affairs, Department of State, until September 23, 1955; Officer in Charge, Central American and Panamanian Affairs, September 23, 1955-December 16, 1956; thereafter, Second Secretary, Embassy in Spain

Sparks, Edward J., Deputy Assistant Secretary of State for Inter-American Affairs until June 14, 1955; Ambassador to Guatemala from July 29, 1955

Spencer, George O., Special Assistant for Inter-American Military Affairs, Office of Regional American Affairs, Department of State, until September 4, 1955; thereafter, First Secretary, Embassy in Brazil

Sprague, Mansfield D., General Counsel, Department of Defense until February 14, 1957; thereafter, Assistant Secretary of Defense for International Security Affairs

Staats, Elmer B., Executive Officer, Operations Coordinating Board
Stambaugh, Lynn U., Deputy Director, Export-Import Bank, until 1955; First Vice President and Vice Chairman, Export-Import Bank, from 1955
Stassen, Harold E., Director, Foreign Operations Administration, and Chairman, Foreign Operations Council, until June 30, 1955; Special Assistant to the President from March 19, 1955
Stewart, C. Allan, First Secretary and Consul (also Counselor from February 23, 1955), Embassy in Costa Rica until November 4, 1956; thereafter, Deputy Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State
Stroessner, Alfredo, President of Paraguay
Sylvain, Frank, Provisional President of Haiti, February 7-April 2, 1957

Tello Baurraud, Manuel J., Mexican Ambassador to the United States
Tittmann, Harold H., Jr., Ambassador to Peru until March 30, 1955
Trujillo Molina, Hector B., Generalissimo, President of the Dominican Republic
Trujillo Molina, Rafael L., Generalissimo, President of the Dominican Republic, May 18, 1942-August 16, 1952; Secretary of State for Foreign Relations, March-August 1953; Commander in Chief of the Armed Forces, 1958
Turkel, Harry R., International Economist, Office of Regional American Affairs, Department of State, September 28, 1955-January 12, 1956; Acting Director, Office of Regional American Affairs, January 12-May 6, 1956; Director, May 6-16, 1956; thereafter, Director, Office of Inter-American Regional Economic Affairs
Twining, General Nathan F., USAF, Chief of Staff of the Air Force until July 1, 1957; Special Assistant to the Secretary of Defense, July 1-August 14, 1957; Chairman, Joint Chiefs of Staff from August 15, 1957

Urrutía Holguín, Francisco, Colombian Ambassador to the United Nations until September 1957; Representative to the Security Council, 1957; President of that Council, August 1957; Ambassador to the United States, November 10, 1955-September 1957
Urzúa Merino, Eduardo, Chilean Minister of Finance from August 1956

Vaky, Viron P., Second Secretary and Consul, Embassy in Argentina until September 11, 1955; thereafter, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State
Vallarino, Joaquín José, Panamanian Ambassador to the United States, April 1, 1955-December 1956
Vallenilla Lanz, Laureano, Venezuelan Minister of Interior
Velasco Ibarra, José María, President of Ecuador until August 31, 1956
Vicchi, Adolfo Angel, Argentine Ambassador to the United States, October 1956-June 1957
Villeda Morales, Ramón, Honduran Ambassador to the United States, January-September 1957; President of Honduras from December 21, 1957

Wainhouse, David W., Deputy Assistant Secretary of State for United Nations Affairs until September 11, 1955; Attaché, Embassy in France, September 11-30, 1955; First Secretary and Consul of that Embassy, September 30, 1955-July 20, 1956; Acting Deputy Assistant Secretary of State for International Organization Affairs, July 20-October 7, 1956
Wardlaw, Andrew B., First Secretary-Consul, Embassy in Paraguay, until March 19, 1957; thereafter, Officer in Charge, North Coast Affairs, Office of South American Affairs, Bureau of Inter-American Affairs, Department of State

Warren, Fletcher, Ambassador to Venezuela until March 24, 1956

Watrous, Livingston D., International Relations Officer, Department of State, from May 19, 1955

Waugh, Samuel C., Assistant Secretary of State for Economic Affairs until August 25, 1955; Deputy Under Secretary of State for Economic Affairs, August 26-October 1, 1955; President and Chairman of the Board of Directors, Export-Import Bank, from October 4, 1955

Weeks, Sinclair, Secretary of Commerce

Whelan, Thomas E., Ambassador to Nicaragua

Whitaker, José María, Brazilian Minister of Finance, April-October 1955

White, Francis, Ambassador to Mexico until June 30, 1957

Whiteman, Marjorie M., Assistant Legal Adviser for Latin American Affairs, Department of State

Wieland, William A., First Secretary-Consul, Embassy in Ecuador, until April 11, 1955; Counselor of that Embassy, April 11, 1955-February 10, 1957; Special Assistant for Public Affairs, Bureau of Inter-American Affairs, Department of State, February 10-May 19, 1957; thereafter, Director, Office of Middle American Affairs

Williams, Philip P., Special Assistant on Technical Assistance, Office of Inter-American Regional Economic Affairs, Bureau of Inter-American Affairs, Department of State, from spring 1956

Willis, George H., Director, Office of International Finance, Department of the Treasury

Wilson, Charles E., Secretary of Defense until October 8, 1957

Wilson, Brigadier General James K., Jr., USA, Director, Office of Military Assistance Programs, Department of Defense, 1955–1956; Director, Office of Programs and Control, Department of Defense, 1956–1957

Wisner, Frank G., Deputy Director for Plans, Central Intelligence Agency

Yadarola, Mauricio Luis, Argentine Ambassador to the United States from August 1957

Ydígoras Fuentes, General Miguel, Presidential candidate in Guatemalan election of October 20, 1957; President of Guatemala, 1959–1962

Zéphirin, Mauclair, Haitian Foreign Minister, 1955; Ambassador to the United States, 1956–1957

Zuleta Angel, Eduardo, Colombian Ambassador to the United States until October 1955

UNITED STATES GENERAL POLICY WITH RESPECT TO LATIN AMERICA[1]

1. Editorial Note

The Operations Coordinating Board (OCB) was established on September 2, 1953, in pursuance of Executive Order 10483, for the purpose of strengthening national security machinery by providing for the coordinated interdepartmental implementation of national security policies approved by the President after consideration in the National Security Council (NSC). The OCB originally consisted of the Under Secretary of State, who served as chairman, the Deputy Secretary of Defense, the Director of the Foreign Operations Administration, the Director of Central Intelligence, and a representative of the President. The Special Assistant to the President for National Security Affairs was authorized to attend all meetings of the OCB as an adviser. The Director of the United States Information Agency also acted as adviser to the OCB, until February 28, 1955, when he became a member of the Board. For additional information concerning the formation of the OCB, see Department of State *Bulletin*, September 28, 1953, pages 420–422. For information relating to subsequent reorganization of the OCB, see *ibid.*, March 14, 1955, page 436.

Each member of the OCB was aided by a Board Assistant. These Board Assistants met regularly as a group to review and to ensure the adequacy of papers scheduled for OCB consideration. They were also responsible for assisting the OCB in carrying out agreed action programs, and in certain cases for acting on behalf of their principals. Within their respective agencies, Board Assistants helped to provide staff support for their principals on OCB matters, and to continue departmental and interdepartmental coordination of OCB problems. The Under Secretary of State's Board Assistant worked with the Operations Coordinator in the Department of State, who was responsible for the coordination of the Department's operational planning.

The OCB constituted an important working extension of NSC machinery. The President's Special Assistant for National Security

[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1 ff.

Affairs, who also served as chairman of the NSC Planning Board, regularly attended OCB meetings; and a member of his staff participated in the Board Assistants meetings. The OCB Deputy Executive Officer, in turn, acted as adviser to the NSC Planning Board and briefed the Planning Board on OCB progress reports when they were on the agenda for NSC discussion. The OCB reported to the NSC on each assignment it received from the President, approximately every 6 months, and reviewed its total range of activities in a semiannual report to the NSC. A majority of the OCB's assignments came from the President, but it could also initiate new proposals for courses of action within the framework of existing national security policies. Through standing working groups, such as the Working Group on Latin America, the OCB prepared outline plans of operations subsequent to the President's approval of a national security policy, and also drafted progress reports concerning the status and effectiveness of operating programs. In early 1957, the OCB was formally integrated into the NSC; for pertinent documentation, see *ibid.*, March 25, 1957, pages 504–506.

The minutes of OCB meetings, the Board Assistants record of actions, OCB activity and status reports, and extensive related documentation for the period 1953–1960 are in Department of State, OCB Files: Lot 62 D 430.

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2. Memorandum of Discussion at the 237th Meeting of the National Security Council, Washington, February 17, 1955[1]

Present at this meeting of the Council were the President of the United States, presiding; the Secretary of State; the Secretary of Defense; the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General (for Item 7); the Director, Bureau of the Budget; the Director, U.S. Information Agency; the Chairman, Interdepartmental Intelligence Conference (for Item 7); the Chairman, Interdepartmental Committee on Internal Security (for Item 7); the Deputy Secretary of Defense (for Items 6

[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Items 1–6 of this memorandum were prepared by Bromley Smith, Senior Member, NSC Special Staff; item 7 was prepared by J. Patrick Coyne, NSC Representative on Internal Security, on February 18.

and 7); the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Assistant to the President (for Items 6 and 7); Messrs. Cutler, Dodge and Rockefeller, Special Assistants to the President; the NSC Representative on Internal Security (for Item 7); the White House Staff Secretary; the Acting Executive Secretary, NSC; and the Senior Member, NSC Special Staff.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1 and 2, "A Net Evaluation Subcommittee" and "Program of United Nations Action to Stop Aggression".]

3. United States Objectives and Courses of Action With Respect to Latin America (Progress Report, dated February 3, 1955, by the Operations Coordinating Board[2] on NSC 5432/1[3])

Mr. Cutler summarized the major points in the Progress Report, and called special attention to the number and size of Latin American loans which had been made by the Export-Import Bank and the International Bank.

Secretary Humphrey reported that the United States was making very good progress in persuading several of the Latin American countries to adopt sound economic policies. He mentioned that approximately $300 million would be spent in Peru during the next five years to develop copper mines. In response to a question, Secretary Humphrey said Peruvians are participating in the private companies developing these mines. He added that Peru gave better treatment to foreign capital than any country in Latin America.

Secretary Humphrey said that a line of credit will be extended to Brazil . . . . The credit will be extended to the present government, which will be replaced in the forthcoming elections. It is hoped that officials supported by the present government will win the elections.

Secretary Humphrey went on to say that when Argentina sought U.S. loans some time ago, it was told that no U.S. capital would be available for Argentine development until existing laws were revised so that foreign capital would be treated fairly. Since that time, the Argentine Government has approved new laws, and has made it possible for the United States to assist in financing construction of a steel plant in Argentina.

Secretary Humphrey discussed the development of oil fields in Argentina and Brazil. He said Argentina was about ready to make a deal with four U.S. oil companies. He commented on the fact that

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[2] See *Foreign Relations*, 1952–1954, vol. IV, p. 89.

[3] *Ibid.*, p. 81.

there was no coal in Brazil, but that there must be some oil in an area so vast. He added that the Brazilians are building an industrial economy, but they have no domestic source of cheap fuel. The more progress they make toward industrialization, the worse their fuel situation becomes.

Secretary Dulles interrupted to note that Brazil was one of those countries where an atomic reactor might make a real difference.

Secretary Humphrey noted that in the past Brazil had refused to allow foreign capital to participate in oil development. He believed that Brazil would permit foreign capital to participate in the oil industry if the Argentine deal went through.

Governor Stassen called attention to the diversification of the Bolivian economy which is beginning to take hold. It is hoped that Bolivia's dependence on tin mining can be reduced. He said that since the completion of the Cochabamba—Santa Cruz Road, settlers were migrating to the agricultural lowland areas. He added that private U.S. companies were again showing interest in investment in Bolivia.

Secretary Humphrey said the Council should realize that a strong base for Communism exists in Latin America. He said that wherever a dictator was replaced, Communists gained. In his opinion, the U.S. should back strong men in Latin American governments. Secretary Wilson commented that the United States must assist in the development of a middle class in Latin America.

Dr. Flemming cited a paragraph in the Progress Report calling attention to Soviet interference in strategic minerals markets in Latin America, including the purchase of certain materials. He asked to be given a statement on sales of such strategic materials with a view to deciding whether something could be done by the United States to put an end to Soviet activity in this field. Mr. Cutler referred him to the OCB and the CIA.

Mr. Rockefeller returned to the comments made by Secretary Humphrey concerning U.S. support of dictators in Latin America. He said that dictators in these countries are a mixed blessing. It is true, in the short run, that dictators handle Communists effectively. But in the long run, the U.S. must encourage the growth of democracies in Latin America if Communism is to be defeated in the area.

The discussion of dictators recalled to the President's mind a comment which Portuguese Premier Salazar[4] had made some time ago, to the effect that free government cannot work among Latins. The President said he firmly believed that if power lies with the people, then there will be no aggressive war. He indicated his

[4] Antonio de Oliveira Salazar.

agreement with Mr. Rockefeller that in the long run the United States must back democracies.

Secretary Humphrey recalled a conversation with the President of Venezuela,[5] who said his government had three objectives—to raise the standard of living, to create more jobs, and to provide the best of everything for his army because without the army there was nothing.

Secretary Dulles asked Mr. Allen Dulles whether work had been completed on a study of the recent revolution in Guatemala. It had been hoped that the Guatemala case could be given publicity as an illustration of how Communists operate in this Hemisphere. Mr. Allen Dulles said he would check on this project . . . .

The National Security Council:

Noted and discussed the reference Progress Report on the subject by the Operations Coordinating Board.

[Here follows discussion of items 4–7: "United States Policy Toward Italy", "Antarctica", "Significant World Developments Affecting United States Security", and "Admission to the United States of Certain European Non-Official Temporary Visitors Excludable Under Existing Law".]

[5] Marcos Pérez Jiménez.

3. Editorial Note

In connection with preparation of the second progress report on NSC 5432/1, *infra*, the Working Group on Latin America prepared and concurred in a paper entitled "Detailed Development of Major Actions Relating to NSC 5432/1, United States Objectives and Courses of Action With Respect to Latin America," covering December 1, 1954–July 14, 1955. This paper, dated July 20, was a compilation of reports received by the Working Group from the Departments of Defense, State, and the Treasury, the International Cooperation Administration, and the United States Information Agency, all of which were represented on the Working Group. No formal action on the paper was taken by the Board Assistants or the Operations Coordinating Board. The paper was distributed on an informal basis to OCB member agencies, the National Security Council staff, and other agencies, for background purposes and to

provide assistance in the briefing of principals who acted on the progress report. (Department of State, OCB Files: Lot 62 D 430, Latin America—1955)

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4. National Security Council Progress Report[1]

Washington, August 10, 1955.

PROGRESS REPORT ON UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA (NSC 5432/1)

(Policy Approved by the President September 3, 1954; As Amended by NSC Action No. 1270–b, November 16, 1954)

(Period Covered: December 1, 1954, through July 14, 1955)

A. Summary of Major Actions and Decisions

1. Latin American reaction to the President's briefing on June 30 of Latin American Ambassadors on the Geneva "Summit" Conference[2] has been very favorable.

2. Vice-President Nixon's visit to the ten Middle American countries in February and March 1955 created goodwill and was helpful in initiating action on legislation to accelerate construction of the Inter-American Highway. Congress has authorized the completion of the Highway in three years and appropriated $25,250,000 for the first year.[3]

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[1] Source: Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5432 Series. Top Secret. A title sheet and a transmittal memorandum from Staats to Lay, August 24, are not printed. This progress report, the second on NSC 5432/1, was drafted by the Working Group on Latin America under date of July 19 and reviewed at a Board Assistants meeting on July 29. As a result of the meeting, the Board prepared a revised version on August 3. Thereafter, the Department of State recommended to the OCB Secretariat additional revisions, and these were incorporated into the report. The changes requested by the Department were described in a memorandum from Holland to Hoover, dated August 5. (*Ibid.*, S/S–OCB Files: Lot 62 D 430, Latin America—1955) The new version, dated August 10, was submitted to the OCB for discussion on that date. The OCB approved the report with a few minor revisions, and concurred in its transmission to the NSC.

[2] Apparent reference to the Conference of Heads of Government, held at Geneva, Switzerland, July 18–23.

[3] Since the cutoff date of this report, through further appropriations, Congress made the total amount of $62,980,000 available for completion of the Highway in three years. The Bureau of Public Roads had requested a total amount of $74,980,000

3. Guatemala ratified the Rio Treaty on April 6, 1955,[4] and it is now in force among all twenty-one American Republics. Guatemala and Venezuela approved the IADB General Military Plan;[5] Mexico is now the only country which has not approved, except Panama, not now a participating member of the IADB. Argentina and Uruguay only have not ratified the OAS Charter.[6]

4. Grant military assistance agreements with Haiti and Guatemala have been concluded, thus making twelve Latin American countries now participating in the Grant Military Assistance Program. The military assistance program for FY 1950–55 for Latin America totalled $198 million, including the value of excess stocks. (Of this cumulative total, $23 million was programmed for FY 1955.) Of this amount, $150 million has been expended or shipped. The total paid for material obtained under reimbursable aid has amounted to $48.5 million, which had an original acquisition cost of approximately $150 million. (See also 21 c. below).

5. The bilateral military plan between the U.S. and Cuba was revised to provide a substantial increase in the Cuban military forces to be supported by the U.S. under the provision of MDAP.

6. The U.S. in January and February 1955 strongly supported the action of the OAS in applying the Rio Treaty to the invasion of Costa Rica by armed elements based abroad.

7. The United States signed bilateral agreements with Argentina, Brazil, Colombia and Venezuela for the supply of information and materials for atomic research programs.

B. Evaluation of Progress in Implementing NSC Policies and Objectives

8. With a few exceptions, the United States has made good progress in carrying out the courses of action outlined in NSC 5432/1.

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to complete the Highway in three years. No decision has been made as to when, if ever, additional appropriations will be requested. [Footnote in the source text. The last sentence of paragraph 2 was revised upon the recommendation of the Department of State. In the August 3 version of the progress report, the line contained no footnote and it read as follows: "Congress has authorized $75 million to complete the Highway in three years and appropriated one-third for the first year."]

[4] For text of the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, September 2, 1947, and entered into force for the United States, December 3, 1948, see 62 Stat. (pt. 2) 1681.

[5] Reference is to "The General Military Plan for the Defense of the American Continent", approved by the Council of Delegates of the Inter-American Defense Board (IADB) on November 15, 1951; see *Foreign Relations*, 1951, vol. II, pp. 1028–1029.

[6] For text of the Charter, signed at Bogotá, April 30, 1948, and entered into force for the United States, December 13, 1951, see 2 UST (pt. 2) 2394.

9. *Hemispheric Solidarity:* The Rio Economic Conference[7] was successful in averting divisive tendencies which might have threatened hemispheric solidarity. The U.S. commitment to satisfy all applications to the Export-Import Bank for sound economic development loans provided stated conditions were fulfilled, and the subsequent invigoration of the Export-Import Bank's lending program, discouraged Latin American proponents of an Inter-American Bank and has to a considerable extent renewed confidence in U.S. continued constructive interest in this area. The successful action of the OAS in the Costa Rican situation not only enhanced the prestige of the OAS but furthered hemispheric solidarity by preventing a serious split between the so-called democratic countries and those with more authoritarian regimes. This action also strengthened the prestige of the United States in the majority of the Latin American countries. It also strengthened the principle of non-intervention which had been called into question by erroneous interpretations put on the circumstances surrounding the Guatemalan revolution of June 1954. It also served to confound Communist propagandists.

10. *Increased Action Against Communist Penetration:* The struggle against the Communists produced mixed results. The Brazilian and Chilean governments banned Communist-sponsored hemispheric meetings. The Governments of Bolivia, Chile, Cuba and Mexico showed increased awareness of the threat of Communism and acted against it, but any losses sustained by the Communists in Chile due to government action were offset by their success in forming a "popular front" with three small leftist groups and thus gaining control of two Senators (out of 45) and 14 deputies (out of 147). In Brazil, as well as Chile, political fragmentation and the inability of the governments to remedy the countries' economic ills, have produced a situation where the Communists could advantageously fish in troubled waters.

11. *Other Measures:* The ICFTU Regional Organization of American Workers (ORIT), due to the active efforts of U.S. trade unionists in that organization, is now resisting indiscriminate anti-Americanism in the labor movements where it has affiliates or contacts. In general, ORIT is making headway in developing training and educational facilities, but it is still far from converting the backward Latin American trade union movements into a constructive force. The outlook for free trade unions in Guatemala has improved, due in part to U.S. Government policy and the backing of U.S. trade

[7] Reference is to the meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly called the Rio Economic Conference), held at Quitandinha, Brazil, November 22–December 2, 1954; for documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

unions. The labor situation has improved in Honduras, but because of the immaturity of the government in handling labor matters the situation has to be watched very carefully.

12. *Increased Stability and Economic Development:* The United States in general maintained stable trading policies and moved toward reduction of barriers on trade. The administration's project to extend the Trade Agreements program was approved by Congress without crippling amendments, and amendments to restrict the importation of petroleum products were beaten off. However, to avoid U.S. quotas, it was necessary to work out agreements with Argentina and Paraguay for voluntary limitations on their exports to the U.S. of tung nuts and oil and to discuss with the Venezuelans the possibility of similar voluntary restrictions on petroleum. Further, the Sugar Act of 1948,[8] as amended, is currently under review in circumstances which indicate the probability of treatment for Cuban sugar considerably less favorable than that now being accorded.

13. Loans to Latin American countries authorized by the Export-Import Bank were $167 million as compared with $114 million in the preceding 7-month period. IBRD loan authorizations totalled $78 million (including the imminent $18 million Guatemala authorization)[9] as compared with $77 million in the preceding period. Latin American countries paid $72 million to the Export-Import Bank and $7 million to the IBRD against the principal of outstanding loans. Economic development has been otherwise furthered by the continuation of grant aid to Bolivia, Guatemala and Haiti because of special conditions in those countries. Congress has authorized and appropriated $38.0 million for Development Assistance Programs in Latin America for FY 1956. This amount is $17.0 million more than the $21.0 million initially proposed by the Executive Branch. In FY 1955, Development Assistance obligations stood at $18.3 million.[10]

14. Programmed funds for technical cooperation for FY 1955 were increased from $23.5 million to $28.2 million.[11] The most substantial increases were made in Bolivia, Chile and Guatemala. The specialized training program was stepped up. 481 trainees were brought to the country between December 1, 1954, and June 30, 1955, as compared with 375 in the same period the year before.

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[8] For text of the Act (Public Law 388), enacted August 8, 1947, see 61 Stat. 922.

[9] In a memorandum to Hoover, August 5, Holland noted that the Guatemalan authorization had been granted.

[10] In the August 3 draft of the progress report, the last line of paragraph 13, which was subsequently expanded into three lines in the final version, reads as follows: "During the period, Congress authorized to be appropriated $17 million more for FY 1956 than the $21 million previously programmed for FY 1956, as against the $18.4 million programmed for FY 1955."

[11] In the August 3 draft, the figures provided in the first line of paragraph 14 are, respectively, "$22.5 million" and "$28.1 million".

15. Following the Rio Economic Conference the trend toward state control of the economies of the Latin American countries, while not reversed, diminished. A variety of U.S. actions contributed to this trend. In Guatemala the Government, at considerable political risk, restored certain land to the United Fruit Company expropriated by the previous regime, thus opening the way for new investment by that company. A draft law to regulate petroleum development has just been promulgated in Guatemala, and Bolivia is giving serious consideration to legislation which would permit limited participation by private concerns in petroleum exploration and has carried on conversations regarding compensation with the former owners of the nationalized tin mines. Legislation has been approved in Chile easing some of the restrictions which weighed on the copper industry, and the Argentine Government also moved toward a limited revision of restrictions on foreign business operations and opened portions of the country to private petroleum companies, although the contracts are still pending subject to approval by the Argentine Congress. In contrast, Brazil showed little indication of relaxing its monopoly on petroleum exploration and exploitation, and Uruguay continued to follow a policy of subsidizing national and nationalized industry to the detriment of the economy in general and foreign private investors in particular. There are indications of a tendency on the part of the Venezuelan Government to engage in industrial activities formerly conducted by private enterprise.

16. *Information and Related Activities:* The policy of concentrating on priority countries was continued, while the impact of the information program was sharpened throughout the area by a system of planning activities around short-term goals. New binational centers, financed mainly from local sources, were founded in seven countries. The Educational Exchange Program was intensified and consistently improved.

17. Willingness to cooperate in the exposure of Communism has increased in many countries and a reversal of anti-U.S. attitudes has been achieved on the part of numerous key groups and individuals. The coordinated work of USIS and other agencies accelerated the trend of the major Mexican labor federations towards aggressive anti-Communism. In Chile, the habit of laying all economic ills at the door of the U.S. has begun to yield to more reasonable press treatment of economic issues. On the other hand, Marxism continues throughout the Continent to exert a pervasive influence among "intellectuals" of all social levels, alienating important segments of labor and youth from the U.S. and facilitating Communist maneuvers against our policies.

18. *Military:* Generally speaking, satisfactory progress has been made in carrying out the military courses of action: the military

grant aid program continued; military missions were continued in eighteen countries; and approximately 2,900 Latin Americans attended U.S. military schools in the past year. However, standardization of Latin American military equipment and forces along U.S. lines continues to be threatened by European competition for the Latin American military equipment market. For example, only about 12% of Latin America's jet aircraft are U.S. type; the remainder are British, and British jet equipment was acquired in greater numbers throughout Latin America over the past two years. In addition, several countries have acquired or are acquiring destroyers from the U.K. and other European countries. Due to the long life of ships, this type of transaction has a long-term adverse effect on standardization efforts. If this trend continues, it may lead to a substitution of military missions from other countries for U.S. military missions.

19. Paragraph 13, NSC 5432/1, states in part, "The United States should encourage acceptance of the concept that each of the Latin American states is responsible for maximizing its contribution by military and mobilization measures, to: . . . support of collective actions in other theaters by forces beyond the requirements of hemisphere security." Inter-agency consideration between State and Defense is proceeding as to whether we should continue along this course of action in view of the difficulty each Latin American country has in meeting its more immediate requirements, unless the United States is prepared to support a much larger grant aid program to Latin America than at present.

C. Emerging Problems and Future Actions

20. The general statement of emerging problems as it appeared in the first Progress Report is still applicable. This is: in the political field, to find the means of associating the United States with the aspirations of the peoples of Latin America, thus counteracting communist propaganda that the U.S. "exploits" Latin America in opposition to the interests of the common people; in the economic field, to deal with the desire of Latin Americans to have the U.S. assume a larger share of the financial burden involved in solving their economic problems than the U.S. is willing to bear; in the military field, to find the means for implementation of the policy of standardization.

21. The specific problems which may be expected to arise during the next six months include:

a. Depending on readjustments in the Argentine Government that may result from the recent unsuccessful revolution there, questions regarding our policy toward that country may arise.

b. The Department of Defense has indicated that, in principle, a military assistance agreement with Argentina would be desirable at the appropriate time. Decisions will be required as to (1) the political desirability of such an agreement, and (2) the size and financing of a military assistance program.

c. The U.S. military assistance program for FY 1956 worldwide is currently under study. It appears that, because of limited funds generally and the low priority of Latin America, sufficient funds will be available for this area for support of existing programs only. An estimate of the dollar amount is not available.

d. Brazil is now in the midst of a presidential campaign, and it remains unclear whether presidential succession will take place by constitutional or other means. The political situation there will require continuing close attention and possibly decisions on our policy toward Brazil.

e. The unsettled economic situation in Brazil may require consideration on our part of further financial assistance in order to prevent a breakdown of the Brazilian economy.

f. The dispute between the U.S., on the one hand, and Peru, Ecuador and Chile, on the other, over the latter's claim to jurisdiction over 200 miles of high seas off their coasts remains a problem in our relations with those countries. Some progress has been made, but continued consideration of solutions to the problem is required.

g. Spot prices in New York for green coffee have returned from a high of 97¢ per pound in April, 1954, to the 1950–1953 level of around 52¢ and future quotations are at a considerable discount below spot prices. If this downward trend continues, it will create serious economic problems for the thirteen coffee producing countries in Latin America. Decisions may be required on the attitude of the United States toward efforts to stabilize the coffee market.

h. There is continuing pressure to restrict petroleum imports, as well as lead and zinc imports, into the United States. This might force consideration of the possible use of the "security clause" of the Reciprocal Trade Agreements Act, as amended.[12] Such restrictions would adversely affect Venezuela (petroleum) and Mexico and Peru (lead and zinc) and our relations with those countries.

i. Continuing consideration will be required of problems arising out of differences in the position of the Administration and the domestic sugar industry with respect to the revision of the Sugar Act. The Administration's position, while not entirely satisfactory to foreign suppliers, is appreciably more favorable than the industry position and would result in doubling the quota for sugar from full duty countries. However, the treatment of Cuban sugar would be considerably less favorable than that now being accorded.

j. The energetic efforts being made by European countries to become suppliers of military equipment to Latin America threaten

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[12] Apparent reference to section 7 (national security amendment) of the Trade Agreements Extension Act of 1955 (69 Stat. 162), which authorized the President, upon the advice of the Director of the Office of Defense Mobilization, and after an appropriate investigation, to "adjust" the level of imports for any product deemed as threatening to impair the national security.

standardization along U.S. lines and indirectly the predominant U.S. military influence in the area, including military missions.

k. Problems will continue to arise in connection with the long-standing efforts to negotiate civil air agreements with Mexico and Colombia.

l. Soviet capabilities for the dissemination and direction of propaganda are increasing through the expansion of the diplomatic staffs and of cultural institutes. The Argentine-Soviet Cultural Institute has established four new branches during the past year. Uruguay has decided to reopen its diplomatic mission in Moscow. Sino-Soviet Bloc commercial missions in Latin America are being expanded.

m. Any change in the atmosphere of relations between the U.S. and the Soviet bloc will require a careful review of the content of our information and related programs.

n. Latin American governments may become unfriendly to ORIT under Jauregui (exiled member of the outlawed Peruvian Aprista political party) who may involve ORIT in Aprista politics.

o. Incidents will continue to occur in connection with the long-standing boundary dispute between Peru and Ecuador until the undemarcated portions of the border are agreed on. These incidents will involve the guarantors of the 1942 Rio protocol[13]—the United States, Argentina, Brazil and Chile.

[13] For text of the protocol between Ecuador and Peru regarding peace, friendship, and boundaries, signed at Rio de Janeiro, January 29, 1942, and signed also by representatives of Argentina, Brazil, Chile, and the United States as guarantors, see 56 Stat. (pt. 2) 1818.

5. Memorandum of Discussion at the 258th Meeting of the National Security Council, Washington, September 8, 1955[1]

Present at the 258th Council meeting were the Vice President of the United States, presiding; the Acting Secretary of State; the Acting Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; Mr. William F. Tompkins for the Attorney General (for Items 3 and 4); the Acting Director, Bureau of the Budget; the Special Assistant to the President on Disarmament; Dr. John von Neumann for the Chairman, Atomic Energy Commission (for Item 2); the Director, U.S. Information Agency; the Secretary of the Air Force (for Item 2);

[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason on September 15.

General Twining for the Chairman, Joint Chiefs of Staff; the Acting Director of Central Intelligence; Mr. Dillon Anderson, Special Assistant to the President; Brig. Gen. Theodore W. Parker for Mr. Nelson A. Rockefeller, Special Assistant to the President; the Deputy Assistant to the President; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1–7: "Significant World Developments Affecting U.S. Security", "Intercontinental Ballistics Missile Program", "Activation of a Volunteer Freedom Corps", "Evacuation of U.S. Civilian Population Abroad Prior to Hostilities Involving Regimes Hostile to the United States", "United States Policy Toward Iran", "Antarctica", and "Expansion of the Labor Service Organization in Germany".]

8. United States Objectives and Courses of Action With Respect to Latin America (NSC 5432/1; Progress Report, dated August 10, 1955, by OCB on NSC 5432/1)

After Mr. Anderson had briefed the Council on the contents of this Progress Report, Secretary Humphrey, noting a point made in this briefing, inquired whether present U.S. policy really contemplated that armed forces of any Latin American states would be sent outside the Hemisphere in the event of war or emergency. If such were the case, Secretary Humphrey believed that our policy was highly unrealistic. Secretary Hoover pointed out that the service of Latin American military forces outside the continent had arisen in connection with the war in Korea. Secretary Humphrey said he understood this, but he could not imagine that we were now continuing to implement such a policy objective. The Vice President commented that if we tried to get the Latin Americans to develop armed forces of sufficient strength to serve outside the Hemisphere, we would be in for "huge shakedowns" of money from these people. Secretary Humphrey thought this particular point was sufficient in itself to call for a review of NSC 5432/1. Governor Stassen, however, pointed out that if we did not put up any money to develop an extra-hemispheric capability for the armed forces of a Latin American nation, nothing was likely to happen, and he did not believe we should put up money for this purpose.

Governor Stassen then went on to point out that some of the worst situations in Latin America did not seem to be highlighted in the present Progress Report, notably the probable winner in the next Brazilian election, Mr. Kubitschek, who had the support of the Brazilian Communist Party.

Secretary Hoover expressed considerable qualifications of Governor Stassen's poor opinion of Kubitschek, and said that if Kubitschek were elected, he, Secretary Hoover, had reason to believe our relations with Brazil would continue to be satisfactory.

Secretary Humphrey said that the entire Progress Report sounded like a Pollyanna report to him. There were much more serious problems in Latin America than this Progress Report indicated. Governor Stassen expressed agreement, and said that in fact the situation was not getting better but worse. Secretary Hoover took issue on the charge that the report was of Pollyanna character. Indeed, he thought that on the whole it was rather pessimistic. Certainly the political and economic situations of many of the Republics were very difficult.

The Vice President commented that there was really little or nothing that the United States could do about the drop in the price of coffee, and that perhaps was the key to the economic problems of many of these countries.

The National Security Council:

a. Noted and discussed the reference Progress Report on the subject by the Operations Coordinating Board.

b. Noted that interagency consideration between the Departments of State and Defense is proceeding as to whether the U.S. should continue along the course of action in paragraph 13–c of NSC 5432/1 regarding "support of collective actions in other theaters".

S. Everett Gleason

6. National Intelligence Estimate[1]

NIE 80/90–55 *Washington, December 6, 1955.*

CONDITIONS AND TRENDS IN LATIN AMERICA[2]

The Problem

To identify the factors affecting Latin American political and economic stability and to estimate the trends likely to affect Latin American political, economic, and military cooperation with the United States.

Conclusions

1. The political instability now evident in Latin America results primarily from serious disturbances of the traditional social order by new economic and social forces. This instability is therefore much more fundamental than that which characterized the personal politics of Latin America in the past. (*Paras. 12–19, 32–33*)

2. The postwar trend toward radical and ultranationalistic regimes has been arrested, at least temporarily. Demagogic rulers have been overthrown in Argentina, Brazil, and Guatemala, and would-be demagogues have been restrained in Chile, Colombia, and Ecuador. Over the short run, this trend toward more moderate governments is likely to continue. (*Paras. 27, 54*)

3. The military have not only continued to be predominant but have even further extended, at least temporarily, their influence over Latin American politics. Although this military predominance generally tends to have a stabilizing effect, we do not believe that, over the long term, the present Latin American military leadership has the

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[1] Source: Department of State, INR–NIE Files. Secret. A cover sheet and table of contents are not printed. National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy matters. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised, if necessary, by the interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet rank, and the NSC. The Department of State provided all political and some economic sections of the NIEs.

NIE 80/90–55 superseded NIE 70, "Conditions and Trends in Latin America Affecting U.S. Security", December 12, 1952. According to a note on the cover sheet, the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated in the preparation of this estimate. The IAC concurred on December 6. The Atomic Energy Commission (AEC) representative to the IAC and the Assistant Director, Federal Bureau of Investigation (FBI), abstained on the ground that the subject was outside their jurisdiction.

[2] This estimate relates only to the Latin American republics. European colonies in the area are excluded from consideration. [Footnote in the source text.]

capacity or means to solve national problems in an orderly, progressive fashion. (*Paras. 28–29*)

4. The economy of the Latin American region is in transition from dependence upon raw material exports to a greater degree of economic development and diversification. Industrialization is still considered an essential goal, although it has recently slowed down as a result of forced retrenchment and re-evaluation of economic policies. In general, the climate for foreign investment is gradually improving. (*Paras. 20–26, 57*)

5. The over-all strength and effectiveness of Latin America's armed forces are gradually improving. Although military cooperation with the United States is being expanded, the arms standardization program is being adversely affected by the increased trend towards purchase of military material from European sources. (*Paras. 35–36, 52–53, 61*)

6. The Communists have no present prospect of gaining control of any Latin American state by electoral means, nor even of gaining direct participation in national politics equal to that which they formerly enjoyed in Guatemala. However, despite their small numbers, they posed a threat to US security interests in Latin America, largely because of the ease with which a relatively few Communists, operating through various fronts, can exploit the widespread social unrest and existing Yankeephobia. (*Paras. 37–41, 43, 55*)

7. The USSR and its Satellites have shown a markedly increased interest in Latin America in recent years. This has been reflected in a great increase in Communist-sponsored trips of Latin Americans to Communist countries, an expansion of Soviet Bloc diplomatic representation, and a growing interest in expanding trade, including arms. (*Paras. 42, 51*)

8. The trend towards moderate government improves the prospects for increased US-Latin American political cooperation, but the Latin American governments are likely to continue to take an independent position on matters affecting colonial and underdeveloped areas. There will be continuing pressure on the US to adopt policies which will assist Latin America in its economic development and trade problems. (*Paras. 44–51, 59–60*)

9. In the long run, as social pressures increase and if economic problems remain unsolved, at least temporary reversion to demagoguery and extreme solutions for meeting national problems is probable. This would in turn subject the Inter-American system to new strains and adversely affect political, economic, and military cooperation with the United States. (*Paras. 29, 56*)

10. In the event of general war, the Latin American armed forces would not be able to defend critical areas and sea routes against

serious enemy attack without the direct participation of US forces, although they would be of value in supporting roles. (*Paras. 62–64*)

Discussion

I. Introduction

11. The disposition, capacity, and orientation of the Latin American countries with respect to US security interests is conditioned by the many complex factors at work in this area of approximately 170 million people. The social pattern of Latin America includes a mingling of colors and a mixture of social traditions of aboriginal America, Africa, colonial Spain and Portugal, and modern Europe. Politically, the Latin Americans pay homage to democratic and constitutional government, but have not been able to establish and maintain effective political democracy. As a consequence, autocratic regimes have generally prevailed. In terms of economics the area offers the contrast of primitive subsistence agriculture, highly efficient raw material production for export, and such complex industrial and commercial institutions as are to be found in more mature societies which Latin Americans seek to emulate. They are also desirous of playing a larger role in international councils, but lack the economic and military strength, the political experience, and the breadth of interest to do so with great effectiveness.

II. Basic Social Trends

12. In most Latin American countries the old order of society was dominated by landed gentry in alliance with the Church and the Army. There was also a small professional and commercial middle class, but it identified itself with the propertied group. The mass of the population was dependent, inarticulate, and politically impotent. Within the ruling group politics was highly personal and unpredictable, but the social order itself was stable.

13. In recent years, however, the traditional social order has been seriously disturbed by the accelerated pace of Latin American economic change and by world-wide ideological influences. Although about 60 percent of the population is still engaged in agriculture, the development of mining, manufacturing, and service industries in Latin America during the past three decades has considerably increased the importance of nonagricultural labor and the urban middle class.

14. In many countries, especially the more important ones (e.g., Argentina, Brazil, Chile, and Mexico), the preponderance of political power is shifting to politicians whose strength is derived primarily from their influence over the urban population. They come primarily from the rising middle class and include intellectuals, officials of the

government and state-controlled enterprises, military, professional and business men, and trade union leaders. The most characteristic attitudes of this new type of political leader, who has no strong ties with the traditional order, are strong tendencies towards nationalism, statism, and social reform. This development, still incomplete and ill-defined, has given rise to political instability more fundamental than that which characterized the personal politics of the past.

15. Urban labor has shown increasing signs of restlessness and class consciousness. Hard hit by the continuing inflation, it has engaged in serious strike action and has increasingly applied pressure upon governments. It has greater political potential than any other group. Even where the demagogic evocation of labor as a political force has been at least temporarily checked by the overthrow of leaders like Peron in Argentina, Vargas in Brazil, and Arbenz in Guatemala, the new administrations must approach urban labor with caution and respect. Rural labor, however, shows few signs of shifting from its traditional character as an inarticulate mass under the control of the great landowners.

16. The rising middle class is as yet less cohesive than labor as a political force. Although critical of the traditional order and generally advocating social, economic, and political reform, middle class elements hold divergent views with regard to specific national issues and have not developed a capacity for united political action. Their most common characteristic is a strong sense of nationalism. Recently, however, in reaction to labor extremism, middle class elements have tended to unite in support of political moderation.

17. Older social elements and institutions have adapted themselves with varying degrees of success to the rise of essentially urban political leadership. Intellectuals, who formerly had their spiritual homes in European capitals and were attached to the oligarchy by ties of family and patronage, are now predominantly both socialistic and nationalistic. In the more advanced states, the military have abandoned their former role as guarantors of the traditional social order. At the same time they are alarmed by labor extremism and its exploitation by demagogic politicians, and tend toward a middle class point of view. Still capable of decisive intervention in political affairs, they exercise that capability on occasion, but with a new restraint and generally for the preservation and maintenance of the fundamental constitutional order. The various national Catholic hierarchies have for the most part striven to preserve the traditional social order, but in a few countries Catholic laymen have organized Christian socialist parties in an effort to counter anticlerical and agnostic tendencies of the urban population and to divert the masses from a more radical course. Only the landed interests have in general made no effort to accommodate themselves to the new situation.

18. Relations between the masses of the people and the new leadership are much less well-defined and less stable than were those between the people and the landed aristocracy. Personal politics and "feudal" loyalties are being modified and in some cases superseded by the impersonal relations of Capital, Labor, and Government. The aspirations of urban populations, especially those of organized labor, have often been exploited by ambitious politicians and directed toward objectives incompatible with the development of stable and moderate government. Though this latter trend has been modified during the past two years, the masses in general remain illiterate, poverty stricken, politically inexperienced, and highly susceptible to demagogic appeals.

19. The degree of disruption produced by the social forces mentioned above varies from country to country. Those with superior physical or human resources, like Argentina, Brazil, Chile, Mexico, and Uruguay, have experienced the most profound social, economic, and political change. But even immature societies, such as those of Bolivia and Guatemala, have responded to the stimulation of reform-minded leadership. In most of Central America, the Caribbean (except Cuba), the North and West Coasts of South America (barring Chile), and Paraguay, the old social order still persists.

III. Basic Economic Trends[3]

20. Latin America has traditionally served as a supplier of raw materials and foodstuffs to the highly industrialized countries of North America and Europe, and has depended on those countries for nearly all of its requirements of manufactured products. The Latin Americans, however, are no longer willing to accept what they describe as a colonial economic status. This attitude is accentuated by their experience during and after two World Wars, when, despite large income from exports of raw materials, they were unable to buy the manufactured goods they wanted. They seek a greater degree of economic independence and stability through such measures as protective tariffs, exchange restrictions, import controls, and government-sponsored industrialization. They see industrialization as the chief means, not only to lessen the region's vulnerability to world trade cycles, but also to raise income levels and to expand the domestic market.

21. Rapid industrialization was pursued by all the major Latin American countries during the immediate postwar years. This policy was accompanied in many countries by elaborate social and labor

[3] For brief descriptions of the economic situations in selected countries (Argentina, Bolivia, Brazil, Chile, Guatemala, Mexico, Venezuela) see the appendices. [Footnote in the source text.]

programs designed to achieve a redistribution of income and by adoption of inflationary wage and credit policies designed to ease the burden of capital formation. By drawing upon accumulated international reserves, by utilizing underemployed agricultural labor in industry and by capitalizing on generally favorable terms of trade, Latin America between 1945 and 1951 was able to expand its gross national product by an annual per capita average of 4.2 percent and to maintain annual investment at an average of 16 percent of GNP. Although the drive for industrialization achieved a significant degree of economic diversification in Argentina, Brazil, Chile, and Mexico, throughout the area too much public investment was placed in ambitious projects requiring long-term amortization in terms of added output of goods and services or was wasted on unproductive ventures. Moreover, economic progress was unevenly distributed in favor of urban industry and to the neglect of basic agricultural output.

22. After 1951, as world prices declined following the Korean War boom, virtually static export volumes proved inadequate to finance the import demands generated by development programs. At the same time lagging productivity caused an increase in prices which severely limited effective demand. Having dissipated the accumulated international reserves and the terms of trade having become less favorable, Latin American governments generally were forced to retrench on investment and to adopt more restrictive wage and credit policies. In the period 1951–1954 there was a general slowing of the rate of growth of per capita GNP to a mere .6 percent annually. During this period the coffee-producing countries and Venezuela, which enjoyed favorable terms of trade, maintained more satisfactory rates of development.

23. Generally, Latin American governments have attempted to maintain existing living standards by reducing the emphasis on investment. Agricultural production for domestic consumption rather than for export has been encouraged, restrictions on imports of consumer goods have been relaxed, and emphasis in imports has been on the raw materials and equipment needed to maintain employment in existing manufacture rather than to increase manufacturing capacity. This easing of consumption levels at the expense of new investment has delayed much-needed investment in agriculture (the output of which is lagging behind population growth), has prevented adequate maintenance as well as overdue expansion of basic services (especially transportation and power), and has aggravated balance of payments problems (particularly in Argentina, Brazil, and Chile). The unwillingness or inability of some governments to restrict credit or to curb wage increases has intensified inflation.

24. In facing the problem of renewing economic momentum, many of the Latin American governments, though continuing to defend industrialization as an essential goal, have recently indicated a growing awareness of the necessity of balanced development, particularly as between agriculture and industry. There are also signs of growing recognition that export earnings constitute the most readily available means of stimulating domestic capital formation. However, the area's ability to reap more benefit from expanded exports is limited by currently declining terms of trade for agricultural products and by Latin America's increasingly marginal position in world markets as a supplier of both agricultural products and minerals.

25. There are some indications that the force of economic nationalism is becoming more moderate. The tendency toward the expropriation and nationalization of foreign owned industrial enterprises has recently been arrested. Bolivia's losing struggle to maintain the output of its tin mines and Argentina's failure to cope with the financial burden of nationalized industries and services have apparently dampened the enthusiasm of other Latin American governments for assuming similar responsibilities. In Bolivia, Chile, Peru, and Guatemala, there appears to be a growing receptivity to foreign investment in petroleum and mining. There is little indication, however, that Brazil and Argentina are ready to relax their prohibitions against foreign development of their petroleum resources. In general, individual governments determine the area in which such foreign capital as can be attracted will be permitted to operate. Basic services, such as transportation and power development, are increasingly viewed as the special province and responsibility of the state.

26. Throughout the area, the state continues to play a major role in the economic development. This stems largely from the fact that private funds are not readily available to finance long-term development enterprises. Though perhaps less committed than formerly to the programs of a welfare state, the central governments still bear the major responsibility for improving the economic status of a steadily increasing population. Their ability to discharge this responsibility is currently threatened by present burdens of debt, and in some cases, by obligations to amortize sizable foreign governmental loans. Major relief for this situation is likely to be sought in long-term, low interest loans from the US and international lending agencies.

IV. Basic Political Trends

27. The most important political development of the past few years has been the arrest of a postwar trend toward radical and ultranationalistic regimes. Demagogic rulers have been overthrown in

Argentina, Brazil, and Guatemala; would-be demagogues have been restrained in Chile, Colombia, and Ecuador; the Bolivian government has become less radical. Extremist radical leadership has generally been discredited, at least for the time being, largely because its solutions for basic national economic and social problems have failed to satisfy the popular demand for more material progress. Political repression and deliberate intensification of social cleavages by such leadership provoked the military to intervene.

28. The military have not only continued to be predominant but have even further extended, at least temporarily, their influence over Latin American politics. In Argentina and Brazil, the new middle class military leadership has come to display a concern for national responsibility which has tended to overshadow the more traditional emphasis upon caste, political power for its own sake, and personal aggrandizement. Though confirmed nationalists, these military leaders are inclined towards moderate and constitutional solutions of national problems and issues, and they share the growing resistance of the middle and upper classes to the emergence of demagogues and radical labor movements. Only Mexico, Chile, and Uruguay have apolitical military establishments. Elsewhere in Latin America (except in Bolivia, Ecuador, and parts of Central America) the more traditional type of military dictatorship with a generally conservative orientation is the rule. Though this precludes, in the short-run, leftist regimes based on mass support, such leadership's repressive tendencies in the face of mounting pressure for political change renders more likely the eventual outbreak of revolutionary violence.

29. Political control by the military is at best a holding operation. Because of insufficient economic progress, the continued absence of a united and dominant middle class, and the continued presence of an economically depressed labor mass without responsible leadership, the invitation to demagogic and extremist governments remains. In the more advanced countries, such as Argentina and Brazil, the influence of a more enlightened armed forces leadership reflects the bankruptcy of civilian leadership more than it does the rise of an effective new instrument for the solution of pressing social problems. There is little evidence that military leaders are eager to cope with the problems of running the complex modern state. Although in the less advanced countries, generally, continuation of strong man military rule is likely, the highly personal and narrow character of these governments limits their capabilities, over the long run, for coping with the growing complexity of governing and meeting the demands for social and economic change. In sum, we do not believe that over the long term the present Latin American military leadership has the capacity or means to solve national problems in an orderly, progressive fashion.

30. Of the countries where the military remain aloof from politics, Mexico and Uruguay have achieved a relatively high level of social and political stability. In Chile, however, moderate and democratic traditions hang in a precarious balance against pressures for social and economic change.

31. US assistance and guidance helped bring about a successful political reorientation in Bolivia and Guatemala. Both countries were moving in an extreme left-wing direction but they are presently ruled by moderate governments which are seeking to build a popular base which will sustain the present course. This kind of relationship with the US would be generally resisted by the larger and relatively more mature countries even were the US willing and able to make the investment required.

32. There is little indication of a trend toward increasing political stability in Latin America. In the past few years, governments have been overthrown by force in Argentina, Brazil, Guatemala, Colombia, and Paraguay. The labor unrest in Chile, the insecurity of the Ecuadoran regime, recurring revolutionary rumors in Cuba, the assassination of Panamanian President Remon, and the generally unsettled political conditions in Colombia and throughout Central America all attest to the general instability of the area. Only regimes in Mexico, Peru, Venezuela, Uruguay, and the Dominican Republic appear to have a firm grip on political processes and sources of power.

33. Within the Latin American area, intervention in the affairs of other nations, boundary disputes, the subversive activities of Communists and exiles, and personal feuds between heads of states, have continued to contribute to both domestic and international instability. Although the Argentine interference in the affairs of other nations has declined, and although the Communists have lost their Guatemalan base for subversive activity throughout Central America, the peace of Latin America has recently been disturbed by a revolutionary invasion of Costa Rica from Nicaragua (probably aided by Venezuela) and by new flare-ups in the longstanding Peru–Ecuador boundary dispute.

V. Basic Military Trends

34. The primary function of Latin American armed forces has always been the maintenance of internal order. Although international wars have occurred within the area, they are outside of normal expectations. Latin American military establishments have not been designed to cope with invasion by a first-class military power without the support and assistance of some other major power.

35. The Latin American governments have agreed to a coordinated approach to the general problem of Hemisphere defense, with the assignment of tasks to particular states under an over-all plan and the preparation of their forces to perform the tasks assigned. Such planning is proceeding through the agency of the Inter-American Defense Board. At the same time various Latin American forces are being modernized and developed under US influence. This influence is exerted through US military missions, the training of Latin Americans at service schools in the Canal Zone and the United States, various bilateral mutual security agreements, and the provision of calculated quantities of various types of US military equipment.

36. The over-all strength of Latin American armed forces has been gradually improving. Total forces in military and militarized police organizations rose from 762,000 to 823,000 during the past three years. In this same period, military capabilities improved, partly as a result of US assistance in organizing, equipping, and training tactical units under the Mutual Defense Assistance Program, and partly as a result of increased military purchases, both from the US under the reimbursable aid program and independently from European sources. An improvement in air and naval capabilities has also resulted from the purchase of jet planes in the UK and naval vessels in various West European countries. However, the combat effectiveness of Latin American armed forces is still low by US standards. Even in the best circumstances, the Latin Americans would never expect to meet attack by a first-class military power without direct US military support.

VI. Communism in Latin America

37. Communist Party membership, after reaching a postwar low of 200,000 in 1952, is again on the rise. There is estimated to have been a 25 percent increase in the past three years. This reflects a doubling of the Brazilian Communist Party membership to about 120,000 and some increase in Chile and Argentina, which has more than cancelled out losses in other countries. The Communist Party, now outlawed in 15 of the 20 republics, has no present prospect of gaining control of any Latin American government by electoral means. In Chile, however, the Communist Party has been able to work successfully with labor and civil liberties groups seeking to discredit the present government, and in Brazil it may have contributed the margin of victory to the Kubitschek–Goulart ticket in the presidential elections of October 1955.

38. The Communist threat to US security interests in Latin America is greater than present party membership in the area would suggest, because of the ease with which a relative few Communists

operating behind labor, intellectual, and other fronts can exploit the social unrest and Yankeephobia already existing in the non-Communist population. While the situations in various countries differ, the experience of Guatemala, 1944–1954, provides an example of how a small Communist minority could penetrate a Latin American government and strongly influence its policy.

39. Communist penetration has been notable in the labor movement. In some countries, such as Brazil and Chile, Communists have succeeded in gaining key positions in strategic labor unions and in national labor federations. Though Communist influence in labor unions has been somewhat curtailed by government action, such action has also affected and antagonized non-Communist labor leaders. Increasing government restrictions on union activity have thus tended to give Communist and non-Communist labor groups a common sense of persecution and a common cause. Through their influence in labor, the Communists have a capability for interrupting the operations of strategically important industries by means of strikes and sabotage.

40. The Communists have also been successful in penetrating Latin American educational systems, intellectual circles, and those patriotic organizations formed to give expression to a spirit of ultranationalism. In this way they seek to instill prejudice in the rising generation, to intensify socialistic and nationalistic tendencies among the intelligentsia, to assume a patriotic coloration for their own activities, and to give such direction to nationalism as will most effectively hinder Latin American cooperation with the United States. In the Latin American armed forces, however, the influence of Communists and Communist sympathizers is slight. In general, the officer corps constitutes the strongest opposition to Communism in Latin America.

41. Communist strategy is broadly defined by the program of the "national liberation front," which provides an almost infinitely flexible standard of operation. Under this program the Communists concentrate their efforts on social sectors that are active partisans of change. These include manual and white collar workers, writers, artists, teachers, and youth groups. Though the immediate influence of these groups has declined as governments have become more moderate, the Communists continue to cultivate them in accordance with long-term strategy. The Soviet emphasis on "peaceful coexistence" has brought no apparent reduction of attacks on the US by the Communists in Latin America.

42. The USSR and its Satellites have shown a markedly increased interest in Latin America in recent years. This has been reflected in a great increase in Communist-sponsored trips of Latin Americans to Communist countries, an expansion of Soviet Bloc

diplomatic representation, and a growing interest in expanding trade including arms. Argentina, Brazil, Chile, and Uruguay are the countries most vulnerable to the expanded Soviet program of cultural and commercial intercourse.

43. Official anti-Communist action in Latin America has increased, especially in Bolivia and Guatemala. As Communist action in Chile has become bolder and more successful, the authorities have been provoked to stronger measures. Similar action against increasing Communist activity may also be expected in Brazil. Nevertheless, the situation continues fundamentally favorable to Communist operations throughout Latin America, since few countries enjoy social or economic stability, and there is organized Communist strength in all the important countries.

VII. Cooperation With the United States

Political Cooperation

44. The climate for US-Latin American political cooperation has gradually improved over the past few years. The improvement has resulted from the reduction of Latin American fears of being involved in war, the elimination or moderation of the more demagogic governments, and especially the removal of the irritant represented by Peron's essentially anti-US foreign policy.

45. In the United Nations, the US has normally had the support of most Latin American countries on major political issues between the US and the Soviet Bloc. In the Seventh and Eighth Assembly meetings, Peron's Argentina, Communist-oriented Guatemala, and traditionally independent Mexico provided exceptions, but in the Ninth Assembly, the United States received solid and consistent Latin American support, highlighted by rejection of Soviet Bloc's criticisms of US Far Eastern policy. However, on matters pertaining to dependent areas the Latin American republics continued to express their traditional anticolonialism in all three assemblies. There is a growing tendency on the part of the Latin American states to support the Arab-Asian bloc in economic and colonial matters.

46. During the past two years, the Organization of American States acted against several threats to collective security and stability in the Hemisphere. In response to the Communist threat in Guatemala, the Tenth Inter-American Conference at Caracas, in March 1954 adopted, with only one negative vote (Guatemala) and two abstentions (Argentina and Mexico), a "Declaration of Solidarity . . . against International Communist Intervention." In January 1955, immediate action by the OAS was a decisive factor in frustrating a revolutionary invasion of Costa Rica from Nicaragua. In September 1955, the OAS deferred action on the Ecuador–Peru

boundary dispute but stood ready to preserve peace in that area. However, the Latin Americans also used the OAS to demonstrate their opposition to the continued existence of European colonies in the Western Hemisphere.

Economic Cooperation

47. The role of Latin America as a supplier of strategic raw materials particularly in time of war when access to materials in other supply areas may be denied, makes Latin American economic cooperation essential to US and Hemisphere defense. Latin America at present supplies the United States with over 30 strategic mineral, fiber, and chemical products. Its output of copper, petroleum, and zinc forms an essential complement to US and Canadian production. The area is the only Western Hemisphere source of 12 essential materials, including tin, cordage fibers, mica, and quartz crystals, and it is the principal Hemisphere source of antimony and monazite.

48. Latin Americans have tended to place responsibility for their development and welfare squarely upon the United States. They believe that the United States appreciates neither the urgency of their economic problems nor Latin America's importance to the United States, and they resent the failure of the United States to give them the financial assistance comparable to the amounts the United States has made available to Western Europe.

49. At the Tenth Inter-American Conference in March 1954, the Latin Americans demanded wholesale US commitments on stabilizing export prices, reducing competition from the US agricultural surplus disposal program, lowering US tariffs, elimination of US import quotas, and a US underwriting of public financing of large-scale development. United States refusal to commit itself, however, led to some moderation of Latin America's demands on these points after the Conference of Economic Ministers at Rio de Janeiro in November 1954. On economic issues in the United Nations, the Latin American countries have supported the other underdeveloped areas in attempts to increase the scope of United Nations economic programs, usually in opposition to the United States. In general the Latin American countries in dealings with the US at the conference level have shown increasing sense of identity of interest and a growing solidarity. This consciousness has stimulated a regional approach to both foreign trade and development problems.

50. Latin Americans in general do not oppose the entry of foreign capital for the purpose of exploiting natural resources, but they insist on exercising control over the scope and form of such investment. This insistence stems not only from a militant nationalism, but also from the concern of some leaders for conservation of resources and the desire of all to obtain a maximum quid pro quo. In

the face of growing realization of the need for foreign capital for industrialization, a number of governments, particularly Bolivia, Guatemala, Chile, and Peru, have sought to revise legislation in order to provide a more attractive climate for foreign investment.

51. Latin America continues to be economically oriented toward the United States with which half its total trade is carried on. There has been a growing interest, however, in increased trade with Western Europe where dollar difficulties have been less of an impediment. This has been particularly evident in Argentina, Brazil, Chile, and Uruguay where interest has been stimulated by the comparatively easy credit terms offered by European traders, especially West Germany. Trade with the Soviet Bloc amounts to as much as 5 to 10 percent of total country trade only in the case of Argentina and Uruguay. These and other countries, including Brazil, are paying increasing attention to the possible advantages of disposing of surpluses to the Soviet Bloc despite present Soviet failure to perform fully on commitments to supply desired capital goods. To date, Latin America has cooperated officially with the US in controlling the flow of strategic materials to the Communist area.

Military Cooperation

52. Latin American military cooperation with the US has generally continued to expand over the past few years. All countries have now established their eligibility for reimbursable aid under the Mutual Defense Assistance Act of 1949,[4] and most of them have submitted requests for such aid. Twelve countries[5] have now signed and ratified bilateral military assistance agreements with the US making them eligible for grant aid under the Mutual Security Act of 1951.[6] All but two countries (Mexico and the Dominican Republic) have US military missions. There are 15 US Air Force, 14 Army, and 9 Navy missions. Generally the Latin American governments have been well satisfied with the work of these missions, but have not made optimum use of them.

53. Many Latin American military and political leaders have been dissatisfied with the area's low priority in relation to Europe with respect to US military aid. Rivalries and mutual suspicions among Latin American states have also led to complaints about inequitable treatment in the bestowal of US aid. Moreover, arms standardization has been adversely affected by the increased trend toward purchase of military matériel from European sources, espe-

[4] For text, see 63 Stat. 715.

[5] Brazil, Cuba, Colombia, Chile, Dominican Republic, Ecuador, Guatemala, Haiti, Honduras, Nicaragua, Peru, and Uruguay. [Footnote in the source text.]

[6] For text, see 65 Stat. 373.

cially jet planes from Great Britain and naval vessels from Western Europe. This has occurred partly because desired US equipment has not been made available or has been slow in delivery, and partly because of the advantageous terms and other inducements offered by European sellers. Continuation of this trend would not only create severe logistic problems in time of war but also undermine the US military mission program.

VIII. Probable Future Developments

General

54. Over the short run, the recent trend toward moderate governments is likely to continue, although without a corresponding increase in political stability. Labor, now lacking effective political leadership, is unlikely to exercise a dominant radical influence in the orientation of national policy. The middle class sector of the population is likely to retain its influence in Latin American domestic and foreign affairs and will tend to align itself with traditional, conservative groups in the face of labor unrest.

55. At the same time, moderate civilian groups are unlikely to demonstrate the capacity for effective political organization and leadership. In the absence of such leadership, the military will continue to assume the responsibilities of governing with varying degrees of effectiveness. Argentina, Brazil, and Chile will probably undergo continuing political instability. In addition the prospects for stability are not good in Colombia, Cuba, and Ecuador. The prospects are best in the most politically advanced countries such as Mexico and Uruguay, and in the countries with strong military dictatorships, such as Venezuela, Peru, and the Dominican Republic. Both moderation and stability of government in Guatemala and Bolivia will depend upon continuation of close ties with the United States.

56. In the long run, at least temporary reversion to radical solutions for meeting national problems is probable in some cases. As long as the economic position of the working class continues to stagnate, labor will be easily aroused by future demagogues. An urgent sense of nationalism will also continue to be available for political exploitation. Meanwhile, with the bankruptcy of civilian rule, the present military leadership can provide no more than a braking action to extremist influences.

57. Latin American governments will continue to face the difficulties and problems of an economy in transition from dependence on raw material exports to a greater degree of self-sufficiency through economic development and diversification. They will probably increase production for export in an effort to regain economic

momentum, but they will not abandon industrialization as a goal of economic planning. Their ability to reduce present imbalances may be improved somewhat by foreign aid and investment, but fundamental solution of their problems will depend upon the adoption of more realistic fiscal and development policies. The execution of sound economic policies will be most difficult in those countries like Argentina, Brazil, and Chile which combine strong social pressures with political instability, and least difficult in countries like Peru and Venezuela which have more immature societies, simpler economies, and strong military governments. The climate for foreign investors will probably undergo gradual improvement.

58. Communist strategy is likely to continue to develop within the "national liberation front" program and probably will not be basically affected by the Soviet emphasis on "peaceful coexistence." Communist efforts in the area will almost certainly continue to depict the United States as the barrier to Latin American progress and world peace. At the same time the Communists are likely to make use of, and to benefit from any relaxation of East-West tensions by pressing for legalization of their political organization and by expanding their propaganda in support of "peaceful coexistence." In this more favorable climate they will probably improve their capabilities for overcoming some existing barriers to collaboration with non-Communist groups. However, they will almost certainly be unable to gain a dominant influence in the national politics like that enjoyed in Guatemala prior to the overthrow of Arbenz in 1954. Prospects for the Communists to increase their influence are probably best in Brazil and Chile.

Cooperation with the US in a Situation Short of General War

59. As long as the trend toward more moderate governments holds for Latin America, disturbances in the climate of US-Latin American relations, such as those provided by Peron and the Communist-oriented Arbenz government, are unlikely. Political cooperation in the UN and OAS is likely to be as close as in the recent past.

60. Latin America will probably continue to assume positions usually opposed to that of the US in both the OAS and UN on matters of "colonialism" and aid to underdeveloped areas. The tendency in Latin America to place responsibility for its economic development upon the United States is likely to continue. Issues such as export price stabilization, lower US tariffs, elimination of US import quotas, and US financing of large-scale development projects will almost certainly be raised again at the proposed inter-American economic conference to be held in Buenos Aires sometime during 1956.

61. Latin America will almost certainly continue to seek US assistance to maintain and gradually improve its military capabilities. However, continued expansion of military cooperation will depend upon a satisfactory solution of Latin America's problems with respect to purchasing US equipment.

Cooperation in the Event of General War[7]

62. In the event of general war, the Latin American armed forces would not be able to defend critical areas and sea communications against serious enemy attack without the direct participation of US forces, although they would be of value in supporting roles. Latin American governments would generally agree to an expansion of their ground forces, but would require US assistance in the provision of equipment and training and would seek to impose as much of the increased expense as possible on the United States. Expanded Latin American forces, US equipped and trained, could eventually assume major responsibility for the defense of continental areas. It is unlikely, however, that Latin American air and naval forces could ever relieve the US of the major responsibility for air and naval defense. Furthermore, it is doubtful that any significant Latin American force would be available for operations outside of the Western Hemisphere.

63. After the outbreak of general war the United States could probably obtain anywhere in Latin America the air and naval facilities necessary for US participation in the defense of strategic areas and sea routes, including consent for the stationing of air and naval forces at such installations. There would, however, be great reluctance, to the point of possible refusal in some cases, to permit the entry of US ground forces unless large-scale invasion appeared imminent. Latin American governments would be even more unwilling to admit to their territories the forces of other Latin American states.

64. In circumstances of general war it is probable that all Latin American governments would agree to suppress existing overt Communist organizations and would have the capacity to do so. The greatest danger from Communists in Latin America in time of general war would be that of sabotage directed against the production and transportation of strategic materials. Although it is unlikely that a large-scale program of sabotage could be sustained throughout the area, the dispersion and vulnerability of key targets, especially in essential transportation systems, and the general inadequacy of po-

[7] This discussion does not take into account the possible psychological effects of nuclear warfare. [Footnote in the source text.]

lice and security forces, would favor sporadic successes, especially in the period immediately following the outbreak of war.

Appendix A

ARGENTINA

1. Argentina has the highest level of living in Latin America. Agriculture is the chief source of wealth, providing the major field of employment and 90 to 95 percent of exports. Together with Mexico and Brazil, Argentina stands foremost with respect to technical progress and the development of its fiscal, banking, and commercial institutions.

2. Peron's rapid industrialization program of the past decade merely accelerated a trend that had begun a generation earlier. By liquidating domestic and international reserves accumulated from agriculture and by large-scale government borrowing, Peron was able to make industrial advances and maintain an annual average growth rate in real national product of 4.5 percent between 1945 and 1951. However, his overemphasis on industrialization exacted a heavy toll on agricultural production. This resulted in a sharp decline in export earnings, which was further aggravated by declining export prices after 1948 and brought to the crisis stage by the crop failure of 1951/1952. This necessitated sharp limitation of imports and a halt in the wage appeasement of labor. Such austerity controls countered inflation and good crops in 1952/1953 enabled output to rise somewhat, but real national product between 1951 and 1954 actually declined by an average of 0.3 percent annually. During the same period real per capita GNP declined by an estimated annual average of 3.6 percent. Investment dropped from 20 percent of GNP in the 1948–1951 period to about 13 percent in 1954.

3. The new Argentine government faces both short and long-range problems in restoring production and investment levels. Areas planted in major crops are only three-fourths of prewar acreages. Transportation and power services are already insufficient to maintain output in either agriculture or industry. The balance of payments problem inherited from the Peron regime promises to produce a trade deficit of $200 million for 1955. In addition, the country also has gross external obligations of about $500 million incurred under bilateral trading arrangements, Export-Import Bank credits, mid-term commercial credits, and official loans. International reserves for meeting these liabilities total $450 million. In addition, the Central Bank may be able to recover $150 million in foreign exchange previously loaned by it to private banks.

4. The new government's program for coping with accumulated economic difficulties is designed to encourage agriculture and to stimulate foreign private investment. It has devalued the peso in order to expand agrarian exports. It anticipates that the resulting increased income will enable producers to rebuild savings and expand plantings. The government will keep for its own use 25 percent of the export revenues. These funds will be used to arrange a gradual adjustment between external and internal prices and may be used to reduce the anticipated balance of payments deficit and to bolster the free exchange market. Although the new government apparently intends to continue the state monopoly on petroleum development, its proposal to establish a free exchange rate to cover inflow and outflow of capital is designed to attract some new foreign private investment. Together with announced government intent to cease official intervention in the economy, the devalued free rate may also provide added incentive to already established foreign capital to reinvest earnings.

5. The burden of the government's new economic policy will apparently fall heaviest on hitherto favored urban labor. Although prices will rise as a result of devaluation, the government plan is to resist wage increases and offset inflationary pressures by increased production and savings. This course of action will put the administration to a severe test, particularly in the next six months, during which collective wage agreements come up for renewal. The government's success or failure will be a measure not only of its own capabilities for economic and political stability, but also of the feasibility of undertaking economically desirable steps in a politically volatile situation.

6. Argentina's economic ties with the US stem mainly from some $425 million of direct private US investment. Because of the essentially competitive nature of US and Argentine exports, it has been difficult to expand trade. (The US accounts for only 14 percent of Argentina's total trade.) Argentine imports of desired US-manufactured goods have been limited by dollar shortages, aggravated by rising requirements for imported oil, and by the limited convertibility of sterling. (The United Kingdom, which absorbs 18 percent of total exports but supplies only seven percent of imports, is able to limit, under its bilateral trade agreement with Argentina, purchases of oil by Argentina in the sterling area.) Argentina will probably continue to search for alternative markets and sources of supply, including those provided by the Soviet Bloc which accounted for eight percent of total trade in 1954.

Appendix B

BOLIVIA

1. Bolivia is one of the most economically retarded countries in Latin America. Its economic growth is hampered by formidable obstacles to communication; low levels of literacy, health, and living conditions; lack of investment capital; and Indian resistance to change. At least two-thirds of the population is engaged in agriculture, and most farming is on a subsistence level. Since the small amount of commercial agriculture is increasingly inadequate to meet the needs of the nonagricultural population, and since the only developed industries are mining and petroleum, Bolivia must import almost half its food requirements and nearly all its manufactured goods.

2. Since 1952 Bolivia has been passing through a major economic and social revolution. The Paz Estenssoro administration has launched an ambitious long-range program to expand and diversify the economy, largely by increased production of foodstuffs and consumer goods. It hopes thereby to lessen Bolivia's need for imports and consequent dependence on fluctuating exports of tin. The government is stressing development of agricultural, forest, and petroleum resources in the lowlands and the Amazon basin. It is attempting to develop commercial agriculture in place of subsistence farming, to expand rail and highway facilities, and to encourage foreign investment.

3. However, the government has met serious difficulties in its economic stabilization and development efforts. Its hope that the revenues and assets gained from the nationalized tin mines would stabilize its fiscal position and ease foreign exchange shortages was nullified by the 50 percent decline in tin prices between April and August 1953. In addition Bolivia's tin, which normally supplied 70 percent of foreign exchange and 90 percent of government revenues, has become increasingly marginal in the world tin market partly because of the complexity and poor quality of most of the ores and partly because of rising production costs. As tin output declined, all attempts to stabilize exchange failed. The country's official gold and foreign exchange reserves, $24.5 million at the end of 1953, were completely exhausted by 1955. Concurrently, deficit financing along with governmental inefficiency and poor fiscal management intensified the most severe inflation in Latin America.

4. Nevertheless, principally because it was able to secure emergency US aid, the government has been able, at least temporarily, to stave off economic collapse and begin carrying out its plans for development and diversification. The US authorized grant aid in FY

1954 and FY 1955 amounting to $33 million, three-fourths of which has been foodstuffs, principally US surplus agricultural stocks. In addition, the United States has for a number of years been supplying technical assistance to Bolivia (about $2.6 million in 1955). This grant aid and technical assistance has already produced tangible results in increased food production and improved communications. The economic respite US aid gave to Bolivia also encouraged the government to moderate its policies, particularly with regard to economic nationalism. It also permitted the government to develop petroleum output adequate for national needs. In addition, the government has shown interest in attracting foreign petroleum investment.

5. The government will continue to need substantial US grant aid during the period of initial developmental efforts. As food production is increased and if the mining industry, which provides 95 percent of foreign exchange and an estimated half of government revenues, can maintain its present position as a source of current income, the need for such aid will probably decrease. However, any serious deterioration in the precarious economy would probably reverse the moderate and progressive direction in which Bolivia is currently moving. Bolivia's balance of payments deficit for 1955 is expected to be about $28 million.

Appendix C

BRAZIL

1. Brazil has the greatest economic potential of any country in Latin America. It has the land, mineral, and forest resources requisite for economic development. These factors, combined with a high rate of capital formation, have produced a marked degree of economic progress, particularly since World War II. In the period 1946–1954, GNP rose 64 percent and per capita output increased more than one-third. This rapid rise in the amount of goods and services available was due to relatively large-scale public and private investment,[8] improved terms of trade, and short-term borrowing abroad. Industrial development was encouraged by the maintenance of an overvalued exchange rate and quantitative restrictions on imports, which tended to favor internal expansion at the expense of external equi-

[8] The ratio of gross investment to GNP was 16.5 percent in 1951 and 1952 but declined to 12.7 percent in 1954. Higher consumption and the financial austerity and credit restriction policies adopted by the Cafe Administration contributed to the discouragement of investment. [Footnote in the source text.]

librium. The industrial advance was so rapid that the industrial sector, which before the war was only half as important as agriculture, by 1951 equalled the agricultural sector's contribution to real GNP.

2. The national economy, however, still depends heavily upon agriculture. Brazil is the world's largest producer of coffee and bananas, ranks second in the production of cacao and citrus fruits, and is at least in fifth position in the production of sugar, tobacco, corn, cotton, cattle, and hogs. Exports of these products provide over 90 percent of Brazil's foreign exchange. During the period 1946–1954, crops for domestic consumption showed a steady rise in output (42 percent) while those for export fluctuated from year to year and over the entire period rose only 10 percent. The adverse effect which currency overvaluation had on the marketability of Brazil's crops was partially offset by rising world prices until 1951, and during 1953–1954 by de facto devaluations and government subsidies to producers.

3. Nationalistic policies have continued to prevent foreign capital from developing Brazil's petroleum resources, despite the fact that domestic capital and technical knowledge have been inadequate to do an effective job. As a result, the country spends an amount equal to about 25 percent of its receipts from coffee exports for imports of petroleum. Furthermore, the rapid postwar economic development has strained existing transportation and power facilities, the inadequacies of which are the greatest obstacles to industrial and agricultural growth.

4. Overvaluation of the cruzeiro has exerted persistent and growing pressure on Brazil's ability to export and has encouraged a rising level of imports. During the past two years exchange policies aimed to achieve de facto devaluation have been ineffective largely because they were predicated on a continued high level of income from coffee—a condition which failed to materialize as Brazil priced itself out of a good share of the market when prices were high, and which disappeared as coffee prices declined in 1954–1955. Brazil was able to finance only 85 percent of its imports from foreign exchange earnings during the period 1951–1954. As a result its international reserves have been eroded and its borrowings abroad steadily increased. The trade deficit during the first half of 1955 reached $49 million compared with $19 million in the same period a year earlier.

5. Brazil's immediate economic problem is to find noninflationary incentives for continuing internal expansion while moving toward external equilibrium. This would involve the correction of inflationary pressures originating in budget deficits and the reduction of credit to the private sector of the economy. In addition it would require adoption of foreign trade policies designed to discourage

imports beyond the country's ability to pay, and to encourage production for export. Devaluation and elimination of the cumbersome exchange rate system would probably help Brazil regain the share of the world coffee market lost to other suppliers during 1953–1954 because of overpricing.

6. While it does not appear likely that all the above policies will be adopted by the new Kubitschek administration, the latter will almost certainly seek stabilization and developmental aid from the US in order to avoid a material slow-down in the industrial sector of the economy. In spite of any reasonable amount of outside financial assistance which may be forthcoming, Brazil's rate of economic growth in the next few years will probably not equal the rate of the recent past.

7. Brazil is strategically important to the US because of its location with respect to South Atlantic sea and air routes, and because of its sources of iron ore, manganese, quartz crystal, beryl ore, mica, industrial diamonds, monazite, and possibly uranium. It is economically important because it is a major area for US trade ($1.1 billion in 1954) and private investment (over $1 billion in 1954). Brazil also has been politically useful to the US by tempering extremist demands and proposals put forth by various countries at Inter-American conferences and in the United Nations.

Appendix D

CHILE

1. Although the Chilean economy is dependent on mining for the bulk of its foreign trade and tax revenues, the nation's manpower is employed primarily in agriculture and, to a lesser extent, in a nascent industry. Chile's per capita GNP is fourth highest in Latin America, but its per capita domestic output, in contrast to the relatively rapid increase attained in most of the other countries in the area, has remained almost constant during the past decade. Gross domestic product has increased only at the same rate as that of the population (1.6 percent annually). Investment levels have been equally depressed, approximating only 12–14 percent of GNP at their highest level (1947–1949, when considerable foreign investment went into mining operations) and dropping to 10 percent in 1953.

2. Chile's slow rate of development is explained by weaknesses found in both external and internal sectors of the economy. During the past decade, although terms of trade have generally improved, export volume has tended to decline while imports have continued to increase under the pressure of industrial development, which had

to be financed in large part by Eximbank and IBRD credits. Emphasis on industrial development has not only failed to yield goods and services commensurate with the investment made, but has diverted scarce resources from agriculture, the low productivity of which constitutes the major obstacle to Chile's economic progress. This lag in agricultural output combined with deficit financing, liberal banking policies, and continued appeasement of wage demands from urban and mining labor groups, has contributed to the most severe and chronic inflation in all Latin America, excepting Bolivia. This inflationary trend has been such as to discourage rather than encourage domestic capital formation. Despite the high price of copper, which normally accounts for about two-thirds of Chile's foreign exchange earnings and a substantial portion of its budgetary revenue, the nation's currency is steadily weakening. The cost of living is rising (56 percent between January and September 1955) and credit facilities are overloaded.

3. The Ibanez administration is attempting to forestall further deterioration in its financial position by temporizing on insistent wage demands and by continuing the taxes imposed on a temporary basis in 1954. It has not, however, shown a willingness to take a firm stand on wage or credit policies.

4. During 1956, the Chilean economy will probably benefit from a rise in exchange revenues from increased exports of copper, production of which is being expanded as a result of more favorable tax and exchange laws. Output for 1955 will exceed 400,000 tons, compared to 359,000 in 1954. Already programmed mining investment will bring an inflow of at least $100 million during the next few years. In addition, an agricultural and transportation development program has been formulated, with FAO–IBRD assistance, calling for expenditure of $300 million over an eight-year period.

5. Since developmental investment tends to be inflationary, improved financial controls will be needed to reap potential benefits. Chile has already invited a private US financial mission to make recommendations concerning correction of its financial problems. It remains to be seen whether the Ibanez government will prove more able and willing than in the past to act on such recommendations.

6. Chile has customarily looked to the US as its major market, source of supply, and provider of foreign capital, both public and private. In its present determination to exact maximum returns from copper, it has attempted in 1955 to sell two-thirds of its copper output to Europe, where prices have been higher than in the US. A general shift of trade is also encouraged by the existing exchange system which offers premium export rates on shipments to Europe. Although the US has lost out to European suppliers on exports to Chile of some consumer goods items, it has continued as the major

supplier of capital goods. The economic nationalism which until recently characterized Chile's postwar relations with the US is now abating. Foreign capital is being generally welcomed, even into petroleum development, which was hitherto reserved for domestic capital.

Appendix E

GUATEMALA

1. Guatemala is predominantly an agricultural economy which displays most of the standard characteristics of underdevelopment: low per capita GNP ($181 in 1953); insufficient power and transportation facilities; high rate of illiteracy (70 percent); inadequate health and educational facilities; a shortage of skilled labor and investment funds; and an inefficient and cumbersome public administration. Subsistence agriculture occupies most of the population, which is more than one-half Indian. The money economy is based primarily on the production of coffee, which in 1954 accounted for 78 percent of the total value of exports. Attempts to diversify the economy, chiefly through tariff protection, tax exemption, and credit assistance, have been only mildly successful. Industry remains confined largely to the simple processing of agricultural products and the manufacture of consumer goods and construction materials.

2. In the immediate postwar period, the Guatemalan economy benefited from a reorganization of the country's banking policies and institutions (completed in 1946), which provided for a single bank of issue, for flexible and diversified credit operations, for currency stabilization, and for protection of the domestic economy from external shocks. During the period 1946–1952, the economy was able to maintain a rate of real economic growth of 4.6 percent annually, largely because of sustained high levels of foreign trade income from coffee and sharply increased government expenditures made possible by substantial borrowings from the Central Bank.

3. After 1952, the Arbenz government's extremist, communist-influenced economic and social policies discouraged productivity and investment in agriculture and industry. During 1952 and 1953 international reserves dropped substantially both because of the decline in world prices following the Korean War boom and because of the flight of private domestic capital. Per capita GNP dropped 5.3 percent during 1953. When the Castillo Armas administration took over the government in July 1954, it was confronted with a looted treasury, a sizable public debt, and a stagnation of business and agricultural activity. On top of these difficulties came the drop in

world coffee prices in the fall of 1954, and a drought which reduced food production.

4. The new administration levied emergency taxes, sought and received financial and technological aid from the US, negotiated a loan of $18.2 million with the IBRD to finance completion of highway projects, and let contracts to foreign firms for the construction of public works. It encouraged foreign private investment by signing an investment guarantee agreement with the US, by promulgating a new petroleum law, by repealing laws affecting remittance and taxation of earnings from foreign capital, and by settling the damage claims of the United Fruit Company.

5. By mid-1955 economic growth had been resumed in Guatemala. The availability of official foreign funds, which to date exceeds $60 million, has permitted the government to maintain a relatively high level of investment and consumption. The creation of a favorable business climate has brought forth new investment, both foreign and domestic, so that industrial productivity has been increased under conditions of stable wholesale prices. In addition, the maintenance of a satisfactory volume of exports has brought Guatemala's foreign exchange reserves to the highest levels in its history.

6. There are social and political impediments to long-range economic development in Guatemala. The country faces a formidable task in bringing its Indian mass into the pattern of national production. Guatemalan nationalism is presently quiescent, but it is likely to increase in proportion to the government's economic and political difficulties. The need for agrarian reform and increased agricultural production for domestic consumption remains. Also, the Guatemalan bureaucracy lacks the experience, skills, and impersonal civil service required for an effective role in economic planning and administration.

Appendix F

MEXICO

1. Although Mexico is well known for its rich and varied mineral resources and has made notable progress in industrialization, 58 percent of the labor force remains engaged in agricultural, forestry and fishing pursuits, which together account for only 20 percent of national income ($5 billion in 1954). Mexico's postwar economic growth is reflected in an annual 5 percent rise in GNP in the years 1945 to 1952 against an annual population rise of 2.8 percent. Although the growth slackened markedly in 1952 and 1953, the

upward trend was resumed in 1954 when GNP increased by nearly 7 percent.

2. The postwar economic growth can be attributed largely to heavy investment. (Ratio of investment to GNP between 1945 and 1952 averaged 16 percent, 90 percent of which came from domestic sources.) This diversion into investment tended to keep down consumption, but the burden was unevenly shared. Profits, interest, and rents rose from 34 percent of national income in 1939 to 51 percent in 1952, while wages, salaries, and income of small entrepreneurs declined from 66 percent to 49 percent.

3. The principal impediment to continued growth of Mexican industry, whose output is expanding at 7.5 percent annually, is the low purchasing power of the agricultural population. Government efforts to raise buying power by encouraging wage increases and controlling prices have had only limited success. Increased agricultural production is hindered by extreme parcelization of cultivated areas and by inadequate rainfall on 80 percent of the tillable land. Although economic resources dedicated to irrigation and reclamation have appreciably expanded the sown area, only about five percent of the total land area is now under cultivation.

4. Government investment activities, which during the 1939–1950 period represented 40 percent of total domestic investment, have provided a vital stimulus to Mexico's economic expansion and are important to the maintenance of economic growth. An attempt by the Ruiz Cortines administration to retrench on government investment in 1952 and 1953 was immediately reflected in a general slowing down of economic activity, and the government was forced to resume spending. Government financing of development has, however, been a strong inflationary influence. Public deficits together with lagging agricultural output have led to currency depreciation and have forced the government to devalue the peso three times in the last 15 years in order to correct price and marketing problems.

5. Although Mexico's development was largely financed from domestic sources up to 1950, in recent years the country has sought foreign funds on an increasing scale. The country has received sizable official loans from IBRD and Eximbank for such purposes as rehabilitation of railroads and electrification. It has also obtained $220 million in foreign private capital, chiefly from the US, in the postwar period. The climate for foreign investors has been improving and foreign companies may now engage in virtually any industry, except petroleum and lumber. Mexican industrialists have generally welcomed foreign private investors and have participated with them in the organization of many new industries.

6. Mexico's balance of payments position improved considerably following the April 1954 devaluation. A sizable reduction has been made in the chronic excess of imports over exports, and this improvement in trade has been accompanied by a sizable capital inflow. Mexico continues to show a trend toward greater diversification of exports. Its previously lagging mineral industry has been reactivated and sulphur production is being developed. The production of export agricultural crops has been increasing. This favorable outlook has, however, been beclouded by the severe hurricane and flood damage in 1955. Corn and bean crops may have been so damaged as to require additional food imports which could change the favorable balance of payments situation and also slow down development of the country by diverting foreign exchange from the importation of producers' goods. In addition, the federal grants necessary for the rehabilitation of devastated areas may adversely affect the government's fiscal position and create an inflationary trend difficult to control.

7. Mexico's ability to continue development at rates registered in recent years will depend in large measure on the ability of the government to curb excessive inflationary pressures. An increase in already heavy investment requirements will be necessary to meet the higher standard-of-living demands of the rapidly growing population. The problem will be to find funds to satisfy these investment needs while avoiding extreme inflation.

8. Mexico's economic development is creating a widening group within the country aware of its community of interests with the United States. The need for continued inflow of foreign capital, the $300 million annual tourist business, the operation of the bracero (migratory labor) agreements, and the close trade ties (US accounts for three-fourths of Mexico's total trade) have helped minimize psychological barriers which created difficulties in the past. Although Mexican nationalist sentiment continues to be strong, it will almost certainly remain quiescent with respect to US-Mexican relations in the foreseeable future.

Appendix G

VENEZUELA

1. Though more than 50 percent of Venezuela's population is engaged in agriculture, the oil industry holds the key position in the national economy. Petroleum accounts for 95 percent of exports, 97 percent of foreign exchange, and more than 60 percent of government revenue. The foreign owned industry, which employs less than

5 percent of the Venezuelan labor force, contributes in wages and salaries 10 percent of the total national income, and economic activities stimulated by the industry are estimated to account for nearly one-fourth of the GNP. Venezuela accounts for nearly 14 percent of the world's oil production. It is the second largest producer in the world and the world's leading exporter.

2. The rising world demand for petroleum exports since World War II has placed Venezuela in a unique position among Latin American nations. It has permitted a rapidly rising national income (annual per capita average of seven percent), an increasingly high level of imports without balance of payments difficulties, and a financing of domestic development out of domestic financial resources. It has also made Venezuela's per capita GNP the highest in Latin America and permitted the government to operate on the highest per capita budget in the area.

3. The utilization of petroleum to accelerate the growth of other sectors of the economy has long been the avowed aim of the Venezuelan authorities. Although capital expenditures by the government have accounted for over a third of the national budget and public investment has represented 50 percent of total capital investment, the growth in consumer goods production had barely kept pace with the population growth up to 1952. Since the latter year, however, there has been some evidence that domestic products are providing a larger share of Venezuela's requirements of manufactured goods and agricultural products.

4. The Venezuelan economy remains vulnerable, however, because of its extreme dependence upon petroleum exports. Possibilities for diversification are limited. Iron ore exploitation cannot provide a sizable foreign exchange inflow in the near future. The production of coffee, the most important agricultural export, has been declining. Food production has not expanded as rapidly as population. Import requirements for both capital goods and food are heavy.

5. Venezuela's economic situation for some time to come can be expected to reflect the status of the market for its petroleum. Especially because Venezuelan oil is confronted with increasing competition from Middle East oil in the European market, the maintenance of the US market is vital to Venezuela's economic growth. A reduced flow of oil into the US would immediately cut the Venezuelan government's spending ability. Its cooperation with the United States, therefore, is likely to be determined by Venezuela's share in the US petroleum market.

6. Venezuela has long provided a favorable environment for private investment. Government encouragement of private enterprise in the form of minimum prices, subsidies, protectionist tariffs, and

low income taxes has attracted foreign capital into fields other than petroleum. Local capital has not opposed the entry of foreign capital into domestic industry and has participated with foreign capital in the development of new industries. The only significant expressions of economic nationalism, thus far, have been the decisions by the government to pre-empt to itself the development of the steel manufacturing and the petro-chemical industries.

[Here follows a map of Latin America showing the routes of certain railroads and the Pan-American Highway and the general location of deposits of selected strategic materials imported by the United States.]

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7. Editorial Note

In connection with the preparation of the third progress report on NSC 5432/1 (*infra*) the Working Group on Latin America prepared and concurred in a paper entitled "Detailed Development of Major Actions Relating to United States Objectives and Courses of Action With Respect to Latin America," covering July 15, 1955–February 24, 1956. This paper, dated February 24, 1956, is a compilation of reports received by the Working Group from the Departments of State, Defense, the Treasury, Commerce, and Labor, the International Cooperation Administration, and the United States Information Agency, all of which were represented on the Working Group. The paper was not submitted to the Board Assistants or the Operations Coordinating Board for formal action, but was distributed informally to OCB member agencies, the National Security Council staff, and other agencies, for background purposes and to provide assistance in the briefing of principals who acted on the progress report. (Department of State, OCB Files: Lot 62 D 430, Latin America—1956)

8. National Security Council Progress Report[1]

Washington, March 28, 1956.

PROGRESS REPORT ON UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA (NSC 5432/1)

(Policy Approved by the President September 3, 1954, Amended by NSC Action 1270–b Approved November 16, 1954)

(Period Covered: July 15, 1955 through March 28, 1956)

A. Listing of Major Developments During the Period

1. *Bulganin[2] offer to Latin America* was made January 16, 1956 to expand diplomatic, economic and cultural relations, extend technical assistance, and conclude trading arrangements (which lend themselves to propaganda exploitation as economic assistance). This was the Soviet Union's most important policy statement on Latin America to date. It was followed by similar Hungarian and Rumanian offers. Even before these, *Orbit propaganda, diplomatic and economic activities stepped up* materially throughout Latin America. Several Latin American countries have since been approached informally by Soviet bloc representatives, and the first formal follow-up of Bulganin's offer was made in March to Colombia through the Soviet UN Delegation.

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[1] Source: Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5432 Series. Top Secret. A covering title sheet and a transmittal memorandum from OCB Acting Executive Officer Roy M. Melbourne, dated April 6, are not printed. This progress report, the third on NSC 5432/1, was drafted by the Working Group on Latin America on February 24, and reviewed at the Board Assistants meeting on March 9. At the meeting, the Board Assistants recommended changes, in part to resolve questions arising from certain deletions and additions proposed by the Treasury Department representative in the Working Group. Subsequently, a new draft was prepared under date of March 13. The differences between the two drafts are described in a paper attached to a memorandum from Staats to the Board Assistants, dated March 13. (*Ibid.*, OCB Files: Lot 62 D 430, Latin America—1956) The Board Assistants discussed the March 13 draft on March 16 and recommended additional revisions, which were incorporated into a new draft under date of March 20. They finally concurred in the submission of this version of the report to the OCB.

In a memorandum of March 21 to Hoover, cleared with Kalijarvi, summarizing the contents of the draft progress report, Lyon noted that Treasury wanted to add a recommendation to the report requesting NSC review of the policies contained in NSC 5432/1 on the grounds that some Latin American countries tended to expend resources on military equipment which could be better devoted to economic development. He also stated: "The Treasury has the support of E in this desire. It is the opinion of the Working Group and of ARA that such a review of policy would be premature at this time. Efforts are currently under way within the Department to develop a program within existing policy which would tend to limit unnecessary

2. *Soviet Bloc reportedly offered to sell arms* to Brazil, Argentina, Uruguay, Ecuador.

3. *President's conference at White Sulphur Springs March 26 and 27* improved basis for negotiations with Mexico on outstanding issues.

4. *Overthrow of Peron* removed source of inter-American friction and brought opportunities for reorientation of Argentine foreign, domestic, military and economic policies.

5. *Inauguration of Kubitschek* ended period of caretaker governments and provided an opportunity for development of political and economic stability in Brazil.

6. *Ecuador–Peru tension was greatly reduced* through prompt U.S. action with the other Rio Protocol guarantors.

7. *OAS facilitated Nicaragua–Costa Rica friendship and nonaggression pact.*

8. *At Ciudad Trujillo Conference* (see 15 below) United States succeeded in checking strong bid initiated by certain Latin American countries at recent Mexico City Meeting of Inter-American Council of Jurists for OAS support for their extreme claims to territorial waters.

9. *Disaster relief operations* were conducted by U.S. in the wake of hurricanes and floods in Costa Rica, Colombia and Mexico.

10. *Castillo Armas, Kubitschek and Batlle Berres visited the United States. Vice President Nixon* attended Kubitschek inauguration.

11. *Bilateral civil atomic energy agreements* were signed with Chile, and initialed with Peru and Uruguay, bringing to seven the Latin American countries in this program.

B. Summary Statement of Operating Progress in Relation to Major NSC Objectives[3]

12. The OCB considers that the policies of NSC 5432/1 are inadequate to meet the intensified Soviet challenge and new Soviet tactics in Latin America set forth in 35 below, and therefore recommends their review by the NSC, for the following reasons:

a. NSC 5432/1 was developed after the overthrow of the communist-dominated government in Guatemala and prior to the government-to-government across-the-board trade, diplomatic and psychological offensive now being waged in Latin America by the

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expenditures for military equipment by Latin American countries." Lyon recommended that Hoover move OCB approval of the progress report without the addition of a recommendation as proposed by Treasury; the Bureau of Economic Affairs recommended that he move approval with such a recommendation. (*Ibid.*) The OCB discussed the draft progress report on March 28, and on that date concurred in its transmission to the NSC on April 6.

[2] Nikolay Alexandrovich Bulganin, Chairman of Council of Ministers, Union of Soviet Socialist Republics.

[3] Latest NIE for the area is 80/90–55, *Conditions and Trends in Latin America*, December 6, 1955. [Footnote in the source text.]

Soviet Bloc. The answer to that offensive is therefore not contained in NSC 5432/1. New policies directly geared to the present situation are required to meet that offensive. Such new policies probably would require changes in existing provisions of NSC 5432/1 and in other NSC policies, but such changes could not be itemized without an analysis of what the policy action should be. However, it is clear that at least sections 4d, 6a, 9, 11 and 12 do not provide adequate guidance to the operating agencies in dealing with this situation.[4]

The OCB also recommends that the NSC review the policies of NSC 5432/1 in the light of:

b. the contradiction inherent in fostering the concept in all Latin American nations of maximizing support of collective actions in other theaters by forces beyond the requirements of hemisphere security (Para. 13c, NSC 5432/1), which may have a tendency to stimulate a desire for arms and equipment beyond the abilities of some countries to maintain and beyond what the U.S. is prepared to furnish;

c. the failure to make acceptable progress toward standardization of military equipment along U.S. lines (see 33 below);

d. the tendency of some Latin American countries to devote to military expenditures resources which could better be devoted to economic development (see 33 below).

The policies in NSC 5602/1[5] have been reviewed and NSC 5432/1 is believed to be consistent therewith.

13. Modest progress has been made toward most of the U.S. objectives in NSC 5432/1, but we have lost ground in our efforts to standardize military equipment along U.S. lines, because we have for various reasons been unable to satisfy requests for military equipment with the result that Latin American countries have obtained equipment in Europe. In the same measure we have lost our ability to restrain excessive military purchases by some countries which tend to absorb limited resources which might otherwise have been used for economic development projects (see 33 below).

14. *Hemisphere Solidarity.* The success and promptness of the action of the OAS and the Guarantor Powers of the Rio Protocol in the most recent revival of the Ecuador–Peru boundary dispute further enhanced the prestige of the Inter-American system. The Guarantors acted with a degree of initiative not seen heretofore in their deliber-

[4] The Treasury Dept. reserves its decision concerning the adequacy of the policies of NSC 5432/1 to meet the Soviet political, economic, and diplomatic offensive and the need for NSC reconsideration of policies to deal with this offensive in Latin America, until it has examined the forthcoming report of Mr. Joseph Dodge, Special Asst. to the President, on the subject and the global review by the NSC of basic policies toward the less developed and uncommitted areas which is scheduled to follow. [Footnote in the source text.]

[5] NSC 5602/1, "Basic National Security Policy," dated March 15, 1956, was approved by President Eisenhower on that date.

ations, leading to hopes that a mutually acceptable solution to this current principal source of friction within the hemisphere may be found. This development, taken together with the Costa Rican-Nicaraguan friendship pact (7 above) has contributed significantly to strengthening hemispheric solidarity.

15. At the Inter-American Specialized Conference on Conservation of the Natural Resources of the Continental Shelf and Oceanic Waters (Ciudad Trujillo, March 1956),[6] the United States succeeded in restoring OAS consideration of important problems concerning conservation of the resources of marine waters and the continental shelf to the customary procedures of full and frank discussion and accommodation of differing views traditional in the Inter-American System, after a serious deviation from this pattern at the Mexico City Meeting of the Inter-American Council of Jurists (January 1956).[7] In contrast to the Mexico City Meeting, the Conference was dominated by a spirit of Pan-American cooperation which led the delegates to seek a conciliation of views of all countries represented. This spirit is reflected in the "Resolution of Ciudad Trujillo"[8] which advances conclusions on issues where agreement among the American Republics was possible and leaves aside for further study those issues where basic disagreement remains. The Conference also provided a valuable interchange of scientific and technical knowledge in the various fields covered by the agenda.

16. Despite opposition from the dictatorships, Jose Mora of Uruguay was elected Secretary General of the OAS.

17. The high-level visits (10 above) and the visit of senior officials of State, Eximbank, Defense and ICA to six countries of South America, did much to reassure Latin Americans as to the continued and sympathetic interest of the United States in them and their problems.

18. The appearance in Mexican gulf ports of United States naval vessels on an errand of mercy, together with the effectiveness of the disaster relief supplied by the U.S. armed forces, were major events in cementing friendship with the people of Mexico and softening bitter memories of alleged U.S. aggression.

19. *Increased Action Against Communist Penetration.* OCB recommendations for improvement of the internal security apparatus of Bolivia, Brazil, Chile and Guatemala are in process of implementation. A Civil Police Administration Branch, established in ICA, has initiated

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[6] This conference was held March 15–28.

[7] Reference is to the Third Meeting of the Inter-American Council of Jurists, held January 17–February 4. Nineteen resolutions were approved at the meeting, one of which was entitled "Principles of Mexico on the Juridical Regime of the Sea". For text of this resolution, see *Annals of Organization of American States, 1957,* pp. 22–23.

[8] For text, see *ibid.,* pp. 70–71.

action to survey the police services in Bolivia and Guatemala, and about 30 Latin American police officers have been or are now in training in the U.S. Attributed and unattributed U.S. action, including expansion of USIA programs to expose the dangers of communism, has been stepped up throughout the area, and has had specific successes in many countries, especially Brazil, Mexico, Chile, Colombia and Cuba. Spontaneous indigenous anti-communist action has grown in many countries—e.g., in Mexican labor, and in the formation of anti-communist committees. The communist problem, however, remains serious in Brazil, Chile, Ecuador, and Bolivia, and also has potentials for damage to U.S. objectives in Cuba, Guatemala, Uruguay, Argentina and to a lesser extent in other countries. Local communists played an important role in the Brazilian elections, and the extent to which the new government will be disposed to move against them remains to be seen. The opportunity of Kubitschek's visit to this country was taken to impress on him the seriousness of the problem and the necessity for energetic action.

20. *Development of Responsible Organized Labor Movements.* The development of backward or government-dominated trade unions of Latin America into organizations conscious of the communist menace has been slow in the light of its long-term educational nature. Of importance in this connection is the labor leader training program under which 118 Latin American labor leaders were brought to this country for orientation and training during the period (most of them, as well as Lechin of Bolivia, saw democratic unions in action at the AFL-CIO Convention). The USIA is expanding its labor educational program through publications, translations, moving pictures and broadcasts; and ICA is continuing to provide training for labor technicians. Limited U.S. cooperation with ORIT, the free trade union regional organization, contributed to the progress of free unions and the reduction of communist opportunities for influence among workers. The visits of Castillo Armas and Kubitschek to the U.S. and that of Vice President Nixon to Brazil were used to suggest the need for appreciation of intelligently led free trade unions in Latin America and to strengthen understanding between U.S. and Latin American trade unions. Several of the International Trade Secretariats, in some cases inspired and assisted by U.S. representatives, undertook, in cooperation with ORIT, to extend their organization and activities in Latin America. ORIT continued through its work in the field of organization and education, to promote effective trade unionism, and to resist communism and dictatorship. During the period the Peronista regional organization, ATLAS, virtually ceased to function. The communist regional organization, CTAL, continued to operate at a very low level. The communist-led central labor organization in Chile, CUTCH, was severely weakened by

internal dissension and the failure of its strike against the stabilization measures.

21. *Increased Stability and Economic Development.* As appeared most clearly in the U.N. Economic Commission for Latin America (ECLA) meeting at Bogotá, and during the visit to South America of high U.S. officials (see 17 above), there appears to have been an encouraging change in the attitude of many Latin American officials toward U.S. economic policy. Though the U.S. sugar quota (now in Senate-House conference) and U.S. surplus disposal serve as irritants in the countries which are or believe they are affected by them, Latin Americans appear increasingly convinced of the Administration's sincerity in seeking to maintain consistent trade policies against continuing efforts by U.S. domestic interests to establish quotas or increase tariffs, better satisfied with the liberalized policy on Export-Import Bank loans, and pleased with the effectiveness of the technical cooperation program.

22. There were no important adverse developments during the period in United States efforts to develop stable trading policies. During most of the period, proposals to establish quotas or increase tariffs on Latin American products were largely dormant. The U.S. initiated tariff negotiations under GATT in which five Latin American countries are participating. Following a tung nut crop failure in the United States, Argentina and Paraguay were advised that voluntary restrictions on exports of tung oil to this country imposed at our request could be lifted. ODM found it unnecessary to ask the petroleum companies operating in Venezuela to impose any further controls on their exports to the U.S.

23. The Export-Import Bank authorized credits of about $110 million consistent with the liberalized policy announced at Rio in 1954. The IBRD authorized credits of about $50 million during the period. PL 480[9] local currency loans for economic development were signed or negotiated during the second half of 1955 in amounts equivalent to approximately $57.5 million involving five Latin American countries, among which Brazil is the most important with $30 million.

24. The technical cooperation program was strengthened and diversified. The number of Latin Americans receiving training in the United States and Puerto Rico rose from 1,540 in FY 1955 to an estimated 2,000 in FY 1956, and there has been increased diversification in fields other than agriculture, health and education. Further strengthening and diversification was programmed. Program obligations in FY 1955 were $27.2 million; estimated obligations in FY

[9] Reference is to the Agricultural Trade Development and Assistance Act of 1954, enacted July 10, 1954; for text, see 68 Stat. 454.

1956 are $28.4 million; and a planning figure of $32 million has been approved for presentation to the Congress. Eleven participants from five Latin American countries were trained under the Atoms-for-Peace program.

25. Programs, totalling roughly $39 million for FY 1956, have been approved for development assistance in Bolivia, Guatemala, and Haiti. Slightly over half of that sum was utilized to provide foodstuffs and related shipping costs; while the balance, together with a large percentage of the total local currency counterpart, was earmarked for various economic development projects. Pursuant to PL 129 (July 1, 1955)[10] authorizing completion of the Inter-American Highway to Panama within three years, and Congress' appropriation of $62.98 million therefor on June 30 and July 30, 1955, the House Public Works Committee made an inspection of the Highway's progress November 18–December 6, and reported that the progress was impressive.

26. Although political and nationalistic factors continued to impede the flow of foreign private capital to the area, some encouraging developments occurred. A number of U.S. companies announced plans for large-scale expansion of their activities. The new Argentine government, while refusing for political reasons to sanction petroleum development by private foreign capital, permitted resumption of profit remittances by United States interests and expressed itself generally as in favor of free enterprise. Twenty-nine companies, mostly U.S. firms, have applied for petroleum exploration rights in Guatemala under the new petroleum code now in effect. Bolivia promulgated a new petroleum code drafted by an American expert retained by the Bolivian government for that purpose. President Kubitschek of Brazil has gone on record as favoring private investment for economic development. The Venezuelan Government threw open additional areas for concessions to foreign oil companies. The President of Guatemala stated that his country would be developed on the basis of private enterprise and the President of Costa Rica has indicated in recent speeches an increasing appreciation of the role of U.S. private enterprise in economic development. The U.S. investment guaranty program was extended to Bolivia and Paraguay.

27. Agreements under PL 480, totalling approximately $155 million at CCC cost, were concluded with Brazil, Ecuador, Peru, Argentina, Bolivia, and Chile.

28. *Institution of Necessary Latin American Government Fiscal, Budget and Related Measures.* The United States agreed to send a financial mission to Bolivia, at the latter's request, to assist that country in developing

[10] For text of the Inter-American Highway Appropriation Act, see 69 Stat. 244.

sound monetary and fiscal programs. Efforts were made to impress the president of Brazil with the need for energetic action in this field while he was visiting this country. While no positive accomplishments are yet apparent, passage of a wage-price bill in Chile, based on recommendations of the Klein–Saks mission, suggests the possibility that progress may be made in stabilizing the economy. Use of PL 480 provisions was made by holding out the possibility of a surplus commodity agreement to Chile as an inducement to develop an economic reform program. The Treasury renewed for two years its $75 million stabilization agreement with Mexico, and for one year its $12.5 million agreement with Peru.

29. *Information and Related Activities.* The information program concentrated 67% of its field resources on seven priority countries, Ecuador having been added to the pre-existing priority list: Argentina, Bolivia, Brazil, Chile, Guatemala, Mexico. Accordingly the programs in other countries were focused on short-term goals and on selected area-wide long-term projects. U.S. financial support was extended to four additional binational centers, financed chiefly by local members, and the formation of many other organizations of a binational character was stimulated by USIS personnel and they are receiving material though not financial assistance from field posts. Binational center activities were more closely integrated with USIS country programs.

30. Major emphasis was placed on the President's Geneva proposals to promote world peace and security, and U.S. leadership in this field was generally acknowledged and supported in Latin America. The "Atoms-for-Peace" program was thoroughly publicized and enthusiastically acclaimed. Sustained attention was given to the task of exposing the dangers of communism, and this threat and the necessity of cooperative counter-measures were recognized by an increasing number of government and labor leaders in several countries, although prevailing attitudes on this subject still are cause for concern (see 19 and 20 above). The values and advantages of private enterprise were constantly stressed, U.S. economic and technical cooperation was extensively publicized, and a growing awareness was noted throughout the area of the constructive contribution made by foreign and private investments. The visits to the U.S. of the heads of state of Guatemala, Uruguay and the Brazilian president-elect, and Vice President Nixon's visit to Brazil, were thoroughly exploited by all informational media in the three countries. The demonstration of democratic values as exemplified by the society and cultural achievements of the United States was a primary responsibility of the information and binational centers and this theme was supported steadily by press output, motion pictures, radio and TV programs.

31. A Fulbright educational exchange agreement was signed with Chile; negotiations for similar agreements are in process with Ecuador, Argentina, Colombia, Brazil, and Peru. A two-way flow of 423 people (325 to the U.S., 98 to Latin America) in FY 1956 was scheduled under the PL 402 leader program. Aid to American-sponsored schools under PL 402 continued, the International Exchange Service contribution for FY 1956 being $175,000 and its request for FY 1957 $250,000. The bringing of three groups to this country under the Latin American Journalist Project proved successful, as evidenced by 75 articles appearing in the most important newspapers of Brazil, Chile, Colombia, Guatemala, Honduras, Mexico, and Peru. President's Fund Projects included tours of "Porgy & Bess" and the Ballet Theatre.

32. *Military—General.* The United States has continued to provide grant military assistance on a very limited scale, to maintain missions in 18 countries, and to provide increased training to Latin Americans in U.S. Service schools. Closer relations with the Latin American military have been fostered by such activities as visits to the United States of the Chiefs of Staff of the Ecuadoran and Paraguayan armed forces, and of the Nicaraguan, Honduran, Guatemalan and Haitian Air Forces, the visit of the Minister of Marine of Peru, and attendance of IADB delegates at U.S. military training exercises.

33. Efforts to achieve standardization of military equipment on U.S. lines have continued to be unsuccessful as previously reported. Some Latin American countries are pursuing a military procurement policy which is adversely affecting their economic stability by diverting substantial portions of their limited resources from economic development to military expenditure. The acquisition of modern arms has taken on great importance for Latin American countries and most of them appear determined to obtain such arms even though there may be some question as to whether all the items they procure are required for military purposes including the carrying out of agreed military missions. The predominant trend in this period has been toward further large orders of Western European aircraft and naval vessels, demonstrating that if modern equipment is not made available from the U.S., Latin American countries will modernize their armed forces by purchases of arms from other sources, possibly including the Soviet Bloc. Extensive military penetration of the area by nations other than the U.S. could prejudice the maintenance of U.S. military missions and the U.S. orientation of Latin American military leaders which is essential to the attainment of U.S. political and military objectives. The U.S. has been unable to satisfy Latin American requests for modern arms because: (1) we have assigned a relatively low priority to Latin America in the

allocations of available equipment (NSC 5517/1)[11] and also in the allocation of the appropriated funds available for loans or grants and (2) unless equipment is declared excess, we charge the "replacement" or "acquisition" cost for obsolescent or used items. If a higher priority were assigned to Latin America in the allocation of available equipment and appropriated funds (loan or grant), the policy of standardization would be more successful. There is no assurance, however, that this action would eliminate the adverse effect on economic stability, because some of the countries might continue to devote to military expenditures resources which could better be devoted to economic development. This situation suggests the need for review of the priority assigned to Latin America in NSC 5517/1 in the implementation of Para. 20e, NSC 5432/1, in order to advance the attainment of that objective and to compete with Western Europe (and possibly the Soviet Bloc) in the provision of military equipment to Latin America. Exploration of possible measures designed to curtail excessive military expenditures by Latin American countries would be desirable.

34. *General—Outline Plans.* Implementation of the OCB *Outline Plan of Operations for Guatemala* (approved June 1, 1955) has continued. The OCB *Outline Plan of Operations for Brazil* was approved July 26, 1955, and a revision prepared by the OCB Working Group for Latin America to bring it up to date is with the Embassy for comment. OCB Outline Plans for *Mexico, Colombia, Ecuador, Bolivia,* and *Chile,* and *Against Communism in Latin America,* are in process of preparation.

C. Major Problems or Areas of Difficulty

35. *Stepped-up Soviet Bloc and local communist activity is increasingly apparent,* especially efforts to expand diplomatic, trade, military, technical and cultural relations and contacts with Latin American countries, to foster the development of National Front governments, and to capitalize on such matters as a) Latin America's surpluses of products difficult to sell, b) Latin America's real and imagined need for capital equipment, c) Latin American desires for arms, d) shortages in Latin America of certain goods, e.g., newsprint, and e) Argentine, Brazilian and Mexican efforts to develop their petroleum resources without participation of foreign private capital. An offer to renew diplomatic relations and to expand trade has been made to Colombia by the Soviet UN delegation, which explained that this was the first such approach to implement Bulganin's statement of policy (see A.1. above) vis-à-vis Latin America. The number of Latin

[11] NSC 5517/1, "Priorities Relative to Pre-D-Day Allocation of Military Equipment," dated July 13, 1955, was approved by President Eisenhower on August 11, 1955.

Americans receiving free trips to the Soviet orbit, efforts to increase further the size of existing Soviet Bloc diplomatic and military representation and trade missions, and Soviet propaganda aimed at Latin America, seem sure to grow. Although the immediate reaction in the Latin American press to the Bulganin statement was negative, some Latin American governments have already responded favorably to Soviet Bloc offers to expand trade. As this occurs, these governments are apt to become more receptive to expanding diplomatic relations with the Soviet Bloc. While U.S. policy calls for selective expansion of Free World-Communist Bloc contacts, including peaceful trade, the Soviet offensive lends urgency to the need to stimulate among the Latin American governments and people an understanding of the threat to them posed by international communism and a determination to control it. It emphasizes the need for the 1290–d program[12] and the other stepped-up anti-communist action noted in 19 above. It will require more concentration on key elements (e.g., labor and students) in the information program, which, even including private U.S. activity in Latin America, lacks the resources of local and international communists. These measures, though desirable, are not, however, considered adequate to defeat the new Soviet challenge.

36. *The necessity to associate the United States with the aspirations of the Latin American people to a greater extent* continues. Part of the problem comes from the communist drumfire of propaganda portraying the United States as the imperialist exploiter of the peoples and resources of the area. In the economic field, problems of U.S. trading policies, and of stability and development in the area, may be expected to continue. Latin American countries will continue to exert pressure on the United States to bear a larger share of their financial burdens than the United States is prepared to bear. They may try to capitalize on Soviet offers of trade arrangements and technical assistance in this connection. In this event, it may be more difficult for the United States to make its credits, its PL 480 sales and similar economic cooperation measures dependent on self-help actions by Latin American countries.

37. *Specific*

a. *Further efforts to consolidate our position with the new Argentine Government* will be required. Depending on the program Argentina develops, decisions will be required on the nature and extent of possible military and economic cooperation with that country.

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[12] Reference is to the action taken at the 229th meeting of the NSC, December 21, 1954, establishing a program aimed at improving internal security and destroying Communist apparatus in freeworld countries regarded as vulnerable to Communist subversion. The record of action is printed as part of the memorandum of discussion at the 229th meeting of the NSC, see *Foreign Relations*, 1952–1954, vol. II, Part 1, p. 832.

b. *Decisions on the nature and extent of economic cooperation with Brazil and Chile* will have to be made.

c. *Recent political developments in Bolivia,* indicating that the trend toward control of the regime by moderate elements may have been reversed as a result of recent increasing leftist control of the government party, could necessitate a review of our policy of cooperation with that government.

d. *Latin American views on jurisdiction over territorial waters* have created serious problems for the United States involving, in addition to legal principles, arbitrary enforcement of unilaterally asserted jurisdiction over American fishing vessels on the high seas. At the Mexico City Meeting of the Inter-American Council of Jurists (January 1956) the proponents of the extreme claims to territorial waters extending as far as 200 miles from the coast succeeded in putting through a resolution favorable to their position over the strong objections of the United States. At the Ciudad Trujillo Conference, the United States obtained adoption of a resolution embodying conclusions much more favorable to the U.S. position than those contained in the highly objectionable Mexico City Resolution. However, in the "Resolution of Ciudad Trujillo" the American Republics also agreed to disagree on certain basic issues on which it was not possible at this stage to reconcile widely differing positions, including the juridical status of the waters superjacent to the continental shelf, the nature and scope of the special interest of the coastal state in the fishery resources in the high seas off its coast and the breadth of the territorial sea, recommending that the American Governments continue to study these matters with a view to reaching adequate solutions. Hence, the Resolution of Ciudad Trujillo did not alter the extreme claims to jurisdiction over the waters off their coasts advanced by several Latin American states.

e. A U.S. position in IA ECOSOC is required on whether we believe there is a basis for proceeding with the preparation and negotiation of an *international coffee agreement,* and if so, under what auspices.

f. *New efforts of domestic interests to restrict the import of oil and other primary commodities* of particular interest to Latin American countries can be expected during the current session of Congress. Moreover, several bills to establish general import quota legislation are pending.

g. *Latin American criticism of U.S. agricultural surplus disposal programs* (see 21 above) will increase to the extent that those countries have difficulty in marketing their own production.

h. *Venezuela's reservations in approving the General Military Plan of the IADB* contain major political implications relating to restrictions of the principle of collective defense and involve colonial possessions of European nations.

[Enclosure]

March 28, 1956.

FINANCIAL ANNEX TO PROGRESS REPORT ON UNITED STATES OBJECTIVES AND COURSES OF ACTION WITH RESPECT TO LATIN AMERICA (NSC 5432/1) for the Period July 15, 1955 through March 28, 1956

(Figures are approximate only; in millions of U.S. dollars)

Expenditures by Fiscal Years

Activity or Program	1953 Actual	1954 Actual	1955 NSC Est.	1955 Actual	1956 NSC Est.	1956 Actual	1956 Current Est.
MDAP (1) (10)	10.9	35.0	37.5	31.7	23.2	8.3(2)	13.4
Direct Forces Support	—	—	—	—	—	—	—
Defense Support	—	—	—	—	—	—	—
Development Assist.	—	2.1	9.1	6.9	11.9	10.4(7)	28.0(3)
Technical Cooperat. (4a)	19.7	17.3	29.2	20.8	34.0	14.4(7)	31.0(5)
Information Servs. (6)	6.3	5.0	4.7	5.2	6.8	3.2(4)	6.3
Educational Exchange	.8	.8	1.1	1.1	2.8	.9(7)	1.6
Shipments-Excess Stocks (Acquisition cost)	58.2	5.8	10.0	10.0	.6	.7(2)	.7
Reimbursable Military Aid (8)	9.6	8.4	—	12.5	—	2.2(2)	NA(9)
Offshore Procurement	—	—	—	—	—	—	—
Other (e.g., Mil. Pay; Procurement; Contract Services)	32.7	23.9	—	19.7	—	—(2)	21.2

Notes and Comments (keyed to figures in above table):

(1) Value of material shipments plus expenditures for training, packing, handling, crating, transportation and rehabilitation of "excess stocks". The current estimate for FY 1956 includes the amount shown as delivered during the first quarters.

(2) To November 30, 1955.

(3) $52.6 million available for expenditure in FY 1956, for Bolivia, Guatemala, and Haiti, including $13.6 million unexpended carry-over from prior years.

(4) As of December 31, 1955.

(4a) Including U.S. contributions to the technical assistance program of the OAS.

(5) $50.1 million available for expenditure in FY 1956, including $22.6 million unexpended carry-over from prior years.

(6) These figures include mission allotments, American salaries and travel, direct media support, and reimbursable administrative support.

(7) As of January 31, 1956.

(8) Under Sec. 106, Mutual Security Act of 1954. The total paid for equipment and material obtained under reimbursable aid has amounted to $49 million, which had an original or replacement cost, as applicable, of $181 million. The latter amount includes $147 million of excess stocks which was paid for at approximately 10% value.

(9) Not available.

(10) Military grant aid in the amount of $190 million was programmed through fiscal year 1956, of which $159 million or about 84% was delivered by 30 September 1955. The program and performance by country are shown below: (in millions of dollars)

Country	Program Thru 30 Sept. 1955 MDAP & Excess	Deliveries Thru 30 Sept. 1955 MDAP & Excess	% Completion
Brazil	103.3	97.6	94
Chile	22.4	18.2	81
Colombia	17.6	13.4	76
Cuba	6.0	3.2	53
Dominican Republic	3.6	3.1	86
Ecuador	8.7	6.8	78
Honduras	.5	.5	100
Nicaragua	.5	.5	100
Peru	17.4	13.6	78
Uruguay	10.1	2.1	21
Total	190.1	159.0	84

Loan Data (Million U.S. Dollars)

	7/1/55 –1/31/56			As of 1/31/56	
Loans By	Disbursements	Repayments	New Loans Authorized	Undisbursed Commitments	Outstanding Debt
IBRD	45	8	48	228	552
EX-IM Bank	41	74	73(1)	401(1)	892

Notes and Comments (keyed to figures in above table):

(1) In addition about $39 million was authorized for steel mill projects in Brazil and Chile early in February 1956.

PL 480 Agreements. Agreements under PL 480, totalling approximately $155 million at CCC cost, were concluded with Brazil, Ecuador, Peru, Argentina, Bolivia and Chile.

9. Editorial Note

On March 28, Assistant Secretary Holland appeared before both the OCB and the NSC Planning Board to explain why the Bureau of Inter-American Affairs (ARA) believed that NSC 5432/1 was inadequate to meet United States problems in Latin America. At the OCB meeting, he proposed in general terms several amendments which he believed would strengthen the policy statement, particularly with respect to the Soviet economic offensive in Latin America, and loan operations conducted there by the Export-Import Bank and the International Bank for Reconstruction and Development (IBRD). (Minutes of OCB meeting, dated March 30; Department of State, OCB Files: Lot 62 D 430, Minutes) In a later memorandum addressed to the Secretary, recommending approval of the third progress report on NSC 5432/1, Holland expanded his explanation as follows: "I feel our policies should be reviewed in the light of the new Soviet tactics, particularly to see if a way cannot be found, without violating overall US economic and commercial policies, to relate the continuing receipt by Latin America of the benefits derived through trade with the United States to performance in the anti-communist field." He further stated his belief that "a clearer definition of US military objectives in Latin America is required and that policies tending to interfere with arms standardization or tending to result in diversion to military purposes of resources which might better be devoted to economic development should be reviewed." (Memorandum from Holland to Dulles, May 1; *ibid.*, S/S–NSC Files: Lot 63 D 351, NSC 5432—Memoranda)

On April 12, the NSC Planning Board considered and concurred in an OCB recommendation for review of NSC 5432/1. The Board also agreed to request the Department of State to prepare a draft revision for consideration, if the NSC adopted this recommendation. On May 3, the NSC directed its Planning Board to review NSC 5432/1. (See Document 11) ARA's views concerning desirable changes in NSC 5432/1 were incorporated into an extensive memorandum, dated May 23, drafted by Holland and several officers in the Office of Regional American Affairs (AR), and forwarded to Bowie, the Department's representative on the NSC Planning Board. (Memorandum from Holland to Bowie, May 23; Department of State, S/P–NSC Files: Lot 61 D 167, NSC 5432) Holland also had a draft of a revised policy statement on Latin America prepared in ARA, which was submitted to the Planning Board for discussion at its meeting on May 28.

At meetings during June, July, and August the NSC Planning Board Assistants, in conjunction with the Planning Board, reviewed

and amended several successive drafts of a new policy statement. On August 16, the Planning Board discussed a finalized version, together with a related financial appendix, but since several disagreements with respect to the statement, numbered NSC 5613, remained unresolved, the Board agreed to submit it to the NSC under date of August 20. (Memorandum from Deputy Assistant Secretary for Inter-American Affairs Roy R. Rubottom, Jr., to Holland, August 17; *ibid.*, Central Files, 611.20/8–1756)

Records of NSC Planning Board meetings and extensive related documentation are *ibid.*, S/P–NSC Files: Lot 61 D 167.

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10. Outline Plan Prepared for the Operations Coordinating Board[1]

Washington, April 18, 1956.

OUTLINE PLAN OF OPERATIONS AGAINST COMMUNISM IN LATIN AMERICA

I. Introduction

A. *Reference: United States Objectives and Courses of Action with Respect to Latin America (NSC 5432/1)*, approved by the President November 16,

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America—1956. Top Secret. A covering title sheet; a statement concerning the purpose and use of the Outline Plan, dated April 18; and an action memorandum by the OCB Secretariat Staff, dated April 25, are not printed. This Outline Plan had its origins in early 1955 in Assistant Secretary Holland's "concern at the apparent failure of Latin American Governments to appreciate the seriousness of the threat posed by international communism and their resultant failure to take effective measures to control communist activities." (Memorandum from Lyon to Hoover, December 2, 1955; *ibid.*, Latin America—1955) A paper on the subject, apparently drafted in the Bureau of Inter-American Affairs and circulated within the Bureau for comment during the summer of 1955, was thereafter submitted to the OCB Working Group on Latin America. (Memorandum from John T. Fishburn of the Office of Regional American Affairs to Robert M. Sayre of the Office, August 8, 1955; *ibid.*, Central Files, 611.20/8–555) The Working Group prepared a draft outline plan entitled "Outline Plan of Operations Against Communist Activities in Latin America", dated November 29, and submitted it to the OCB for preliminary consideration prior to its transmission to U.S. Embassies in Latin America for comment. At its meeting on December 15, the OCB suggested certain revisions, and authorized its transmission to the field. The Department transmitted the draft plan, under cover of instruction CA–4731, dated December 21, 1955.

In March 1956, the USIA notified the OCB of its urgent need for the Outline Plan, and the OCB agreed to expedite its completion. Consequently, the Working

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1954. Paragraphs directly referring to the problem of communism as affects Latin America are:

General Considerations—para. 2, 3
Objectives—para. 4d
Courses of Action—para. 6a, 6b, 8b, 11, 12

Other references which include action against communism appear throughout the paper.

B. *Purpose of This Plan:* To effect a concerted and integrated program, with participation by all appropriate agencies of the U.S. Government, to implement the national policies against communism in Latin America set forth in NSC 5432/1, taking into consideration:

1. The necessity to combat increasing communist influence in parts of the area;
2. The necessity to develop in Latin America a determination to reject Soviet Bloc overtures;
3. The possibility that Latin American misinterpretation of developments in U.S.-Soviet Bloc relations may lead to relaxation and complacency;
4. The growing importance of Latin America to the security of the U.S.

The courses of action are designed to increase Latin American awareness of the threat of international communism and to stimulate Latin American governments to take and Latin American peoples to support effective measures to control and restrict communist activities.

C. *Present Situation*

1. *United States Influence in Latin America.* The United States is at present the non-Latin American country having by all odds the greatest political, economic, psychological and military influence in Latin America. Its relations with all of the twenty governments are on balance good, and with most excellent. The geographic closeness of these countries to, and their extensive diplomatic, military, trade and travel ties with, the United States, are strong forces of cohesion. Good relations have been enhanced by the cooperative, constructive and friendly international conduct of the United States in recent

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Group met on March 28, 29, and 30, before all replies had been received from the field, and produced a revised version dated April 5. The Board Assistants reviewed this version at a meeting on April 13, made additional changes, and concurred in its submission to the OCB under date of April 13. At its meeting on April 18, the OCB concurred in the Outline Plan, after suggesting a few more changes, including a new title, and authorized its transmission to the field under date of April 18. The Department sent copies of the Outline Plan to all Chiefs of Mission in Latin America at various dates during May and June 1956, under cover of similar letters signed by Hoover, requesting that they personally supervise its implementation. Copies of the letters are *ibid.*, Central File 611.20.

years in its dealing with the Latin American governments, formalized in the Good Neighbor policy, the OAS, the UN and related cooperative activities and based on a recognition of the dignity, integrity and right to non-interference of the Latin American governments.

2. *Negative factors.* It must be remembered, however, that there have been and still are factors which create serious problems in United States relations with Latin America. Efforts at persuasion, exertion of pressure, and the offering of inducements can, therefore, in certain circumstances have injurious effects. When they are undertaken, it should be fully realized that nationalism is a strong force throughout the area and is often expressed as anti-Americanism. Also fears of "Yankee imperialism" and dollar-diplomacy and memories of U.S. intervention in Latin America linger on. In addition, many Latin Americans are jealous and resentful of the size and wealth of the United States and accuse us of being a materialistic and avaricious people.

3. *Communist Influence and Objectives in Latin America.* No Latin American government is now communist-oriented and in almost every Latin American country some steps are being taken against communism. At the same time, communism remains a continuing serious danger and problem in Latin America, the seriousness of which is intensified by the new open Soviet challenge.

Annex A (prepared by the Office of Intelligence Research, Department of State, and attached for background information) covers communist objectives; strategy and tactics; target groups; front organizations; capabilities (including detailed reference to Chile and Brazil); international ties (including Soviet Bloc trade efforts culminating in the Bulganin offer of January 1956); and probable future developments. It will be particularly noted that:

a. Communist action has the overriding ulterior motive of attacking and weakening the United States; to this end it attempts to weaken cooperation with the U.S. and to weaken the social and economic fabric of the Latin American countries as a means to world conquest. Its destructive, fraudulent, subversive, and brutal character is semi-obscured by a protective coloring of nationalism and by its cooperation with all groups or causes opposed to the U.S.;

b. Communist action is covert as well as overt, stresses indigenous action, including the "national liberation front", and is peculiarly dependent on Soviet Bloc financial, propaganda and travel support;

c. Communism's fraudulent but plausible promises center mainly on the aspirations of labor, students and youth, intellectuals and educators, women and agrarian elements.

Continuance of the above types of communist objectives and action is now, as evidenced by the Bulganin offer to Latin America of January 1956, to be supplemented by a campaign which purports to cooperate with Latin American governments under a non-intervention policy and which purports to avoid opposition to or subversion of them. Accelerating Soviet Bloc and local communist activity is to

be expected, especially efforts to expand diplomatic, trade, military, technical and cultural relations and contacts with Latin American countries, to foster the development of "national front" governments, and to capitalize on such matters as (a) Latin America's surpluses of products difficult to sell, (b) Latin America's real and imagined need for capital equipment, (c) Latin American desires for arms, (d) shortages in Latin America of certain goods, e.g., newsprint, and (e) Argentine, Brazilian and Mexican efforts to develop their petroleum resources without participation of foreign private capital. The number of Latin Americans receiving free trips to the Soviet orbit, efforts to increase further the size of existing Soviet Bloc diplomatic and military representation and trade missions, and Soviet propaganda aimed at Latin America, seem sure to grow.

4. *United States Counter-Action to Date Against Communism in Latin America.* All United States programs in Latin America, conducted by State, USIA, Defense, ICA, Labor, Commerce, Treasury, and AEC, with intelligence support, although many have broader objectives, serve to combat communism in the area. The effectiveness of these Unites States programs and existing policies against communism is illustrated by the improved United States capabilities against it with respect to Guatemalan and Bolivian governments, which have presented serious problems in this regard in recent years. More precisely targeted U.S. actions which have had a substantial impact against communism in Latin America are:

a. Continuing advance consultation with the Latin American governments on issues to come up in the UN and other (e.g., Geneva I and II) meetings;

b. Direct contact between our Embassies and local governments on communist meetings and activities, shipments of strategic materials to the Soviet Bloc, and the distribution of papers relating to communism;

c. United States Government activities in the field of labor;

d. Effective attributed and unattributed information programs on communism such as USIA's;

e. Emergency grant aid given Guatemala and Bolivia and technical cooperation programs throughout the area;

f. Mutual defense planning, military cooperation and training and reimbursable and grant military assistance;

g. Other available methods of cooperation against communism including intelligence support of our Embassies and programs.

In addition, Resolution 93 (Annex B)[2] adopted at the Tenth Inter-American Conference held at Caracas in March 1954, as a culmination of previous OAS action, condemns communist activities as constituting intervention in American affairs, expresses the determination of the American States to take the necessary measures to

[2] Not printed.

protect their political independence, and declares that communist control of any American State would call for action by the OAS. It recommends that each government give special attention to

a. Measures to require disclosure of the identity, activities, and sources of funds of those who are spreading propaganda of the international communist movement or who travel in the interests of that movement, and of those who act as its agents or in its behalf; and

b. The exchange of information among governments to assist in fulfilling the purpose of the resolutions adopted by the Inter-American Conference and Meetings of Ministers of Foreign Affairs regarding international communism.

Partially to avoid "big stick" implications, the U.S. has moved slowly to implement Resolution 93, leading some LA governments to initiate the question of implementation. The U.S. is currently developing a program through the naming of liaison officers in each capital to handle exchanges of information on communist activities heretofore handled on an informal basis. One of the United States objectives has been to avoid hysteria about communism in Latin America, and to approach the problem in its proper perspective in relation to the totality of our objectives for the area, giving indigenous unattributable action its vital opportunity to develop spontaneously. It is also worth noting that although many Latin American countries have legislation outlawing communism, prohibiting communists from holding political or labor office, etc., there is a wide lack of appreciation of the threat and hence insufficient determination to take effective action.

D. *Special Operating Guidance.*

5. *Basic Approach.*

a. U.S. actions against communism in Latin America will be based on:

(1) Preservation with all governments of cooperative constructive friendly relations, adaptable to changes of government, and based on the policy of non-interference in their internal affairs;

(2) Continuous demonstration in Latin America of the vigor and resourcefulness of U.S. policy and technology, and the U.S.'s high levels of morality and democracy. It must be recognized that in areas such as Latin America the strongest psychological weapons are apparent power and command of the future;

(3) Maximum effort to associate communism with subversion, to have it recognized as the problem of each country and not solely of the United States; and

(4) The use of appropriate OAS, UN and other multilateral, as well as bilateral, action in combatting it.

b. In accordance with NSC action 1290–d, internal security studies of selected countries in Latin America have been made and others are scheduled. These formulate measures to assist in strengthening Latin American internal security forces to enable them more effectively to combat communist subversion.

c. In continuing all existing positive United States programs in Latin America, keep always in view, and exploit in practice, their power to weaken communism by strengthening and improving the welfare of Latin American governments and peoples and by drawing closer the political, economic, psychological, spiritual and military bonds of Latin American governments and peoples with the United States and the West. Once undertaken, such programs become visible symbols of U.S. democracy and the degree of success in carrying them through to conclusion the measure of our dependability.

II. Actions Agreed Upon

Some Courses of Action, though included within the greater scope of others, are listed separately in case they can be implemented before the larger Courses of Action.

Individual action items, when extracted from this Plan, may be downgraded to the appropriate security classification.

NSC Citations	*OCB Courses of Action*
Para. 5: "The United States should achieve a greater degree of hemisphere solidarity by:	1. Secure continuing Latin American solidarity with the United States in the UN against Communism. Attempt to block Soviet-Bloc exploitation of colonialism or similar issues in the UN.
c.: "Consulting with the Latin American states, whenever possible, before taking actions which will affect them or for which we wish their support, explaining as fully as security permits the reasons for our decisions and actions."	*Assigned to:* State *Support:* USIA, . . . Labor *Target Date:* Immediate and continuing.
f. "Taking into consideration, in determining the extent of U.S. assistance and support to particular American states, their willingness and ability to cooperate with the United States in achieving common objectives."	2. In providing assistance and support to the Latin American countries, take into consideration as one factor whether the recipient government is cooperating with us in taking effective action against communism. Without committing the United States, promote the belief within the recipient government that continued cooperation and as-

sistance from the United States depend in part on a genuine and effective anti-communist policy.

Assigned to: State, ICA, Defense, Treasury

Target Date: Continuing.

Para. 5. "The United States should achieve a greater degree of hemisphere solidarity by:

a. "A greater utilization of the OAS as a means of achieving our objectives, which will avoid the appearance of unilateral action and identify our interests with those of the other American states."

Para. 6a.: "The U.S. should encourage through consultation, prudent exchange of information, and other available means, individual and collective action against Communist or other anti-U.S. subversion or intervention in any American state."

3. Undertake sustained efforts through bilateral action in Washington and in the countries, and through the OAS when appropriate, to implement the recommendations of Resolution 93 of the Tenth Inter-American Conference by:

a. Securing adoption by the other Latin American governments of any measures not already adopted by them to require disclosure of the identity, activities, and sources of funds of those who are spreading propaganda of the international communist movement or who travel in the interests of that movement, and of those who act as its agents and in its behalf; and

Para. 6b: "In the event of threatened or actual domination of any American state by Communism, the U.S. should, pursuant to Resolution 93 of the 10th Inter-American Conference, promote and cooperate in application of the sanctions, including military, provided for in the Rio Treaty to the extent necessary to remove the threat to the security of the Hemisphere, all sanctions being applied in collaboration with other OAS members to the extent feasible, and unilateral action being taken only as a last resort."

b. Effecting a continuing bilateral or multilateral (as appropriate in particular cases) exchange of information among governments.

Assigned to: State

Support: USIA, CIA

Target Date: Immediate (but also see Course of Action 10 below).

4. Implementation of the course of action at paragraph 6b of NSC 5432/1 is assigned as follows:

Assigned to: State

Support: Defense

Target Date: On occurrence of contingency.

5. Encourage Latin American Governments to recognize the concepts of Resolution 93 to the effect that:

a. Communism is a subversive conspiratorial movement which is a separate and distinct threat to the state, its government and its leaders which should not be dealt with merely as a part of the political opposition; and

b. The American Republics can not permit, and if necessary must take action to prevent, the establishment of a communist-controlled government in one of the American Republics.

In this connection, where required, develop appropriate supporting data and information.

Assigned to: State

Support: USIA, Defense, . . .

Target Date: As feasible.

6. Within the framework of 5a above, encourage as feasible and appropriate adoption of any

necessary new and enforcement of existing and new legislation or executive orders:

a. To outlaw communism and communist parties;

b. To exclude communists from running for or holding any civilian or military office in the government or in a political party, in any trade union or rural or urban workers' organization, in public or private education or in any other key activity;

c. To require registration and control the travel, funds, communications and other activities of communists;

d. To define and punish subversion as including communist activity aimed at the overthrow of the government;

. . . . . .

f. To arrest and confine communists promptly upon the occurrence of war. This may include development of suggested uniform or specific laws or executive orders modelled where possible on laws found effective in the United States.

Assigned to: State

Support: USIA, Defense, Labor, ICA, Commerce, . . . Treasury

Target Date: As feasible.

Para. 4: "The objectives of the United States with respect to Latin America are: " . . . [3] d. The reduction and elimination of the menace of internal communist or other anti-U.S. subversion."

Para. 6.a. (above)

Para. 9.d. (below)

7. Where appropriate in the light of available intelligence and where accepted, strengthen the . . . security apparatus of Latin American governments which are responsible for maintaining surveillance over and control of communist activities and for combatting communism.

Assigned to: ICA and State

Support: . . . , Defense, USIA

Target Date: Continuing, with expansion as appropriate.

8. Educate the Latin American governments and peoples on the use to which the Soviet Union and its satellites put their diplomatic, military and other missions for purposes of subversion, intervention and direction of local communist activities. Make continued efforts to discourage diplomatic, military and other relations between the Soviet Bloc and Latin American governments where those relations do not now exist or the expansion of missions now existing in Latin America.

Assigned to: State, Defense, USIA

Target Date: Continuing.

9. Make a decision on a case-by-case basis, after careful study, as to the advisability of U.S. attempts to discourage acceptance by Latin American governments of Soviet Bloc offers of economic or technical assistance, whether made directly or through the UN.

[3] Ellipsis in the source text.

Para. 11: "The United States should expand and make more effective, information, cultural, education and exchange programs for the countries concerned. The U.S. Information and Cultural Programs for Latin American states should be specifically directed to the problems and psychology of specific states in the area, with the objective of alerting them to the dangers of Soviet imperialism and communist and other anti-U.S. subversion, and convincing them that their own self-interest requires an orientation of Latin American policies to our objectives."

Para. 12: "The United States should itself continue and intensify appropriate . . . efforts to combat the activities of communists and other elements hostile to the United States, through political warfare methods consistent with the proscription of . . . unilateral intervention."

Assigned to: State
Support: ICA
Target Date: As circumstances require.

10. Effect by all appropriate attributed and non-attributed action consistent with the proscription of overt unilateral intervention, and with intelligence support:

a. An understanding in Latin American countries on the part of political parties, the church, the armed forces, labor, students and youth, intellectuals and educators, businessmen, women, agrarian elements and key local groups, and through them the general public, of the subversive, conspiratorial, fraudulent and brutal nature of communist action, and of its overriding ulterior purpose to serve Soviet Bloc intervention at the sacrifice of the welfare of the people of the country;

b. A deep personal appreciation among the Latin American governments and peoples for Western democratic ideals and institutions.

Assigned to: USIA, State, ICA, Defense, Labor, Commerce, Treasury
Support: . . .
Target Date: Immediate and continuing.

11. On the basis of all available intelligence support, and insofar as consistent with the proscription of . . . unilateral intervention and as necessary or appropriate, encourage through attributed or unattributed channels (see NSC 165/1, Para. 3)

indigenous spontaneous tendencies, groups or action having any objectives contained in the courses of action of this Outline Plan, including persuasion of groups and individuals in Latin America away from communism.

Assigned to: USIA

Support: Labor, Defense, . . . , State

Target Date: As the occasion presents.

12. More effectively organize the U.S. Government to develop the essential information needed to deal with the problems of communism in Latin America by:

a. Designating one full-time officer in the Department of State with the responsibility of coordinating for the Department the program against communism in Latin America;

b. Establishing a unit within the Department of State to screen information on communism developed by the intelligence agencies, to select information which might usefully be made available to the Latin American governments and to secure approval for its release in implementation of Resolution 93;

c. Preparing a basic study on communism in each Latin American republic with the study to be kept current by semi-annual reports; and

d. Intensifying efforts to identify the nerve centers, communication lines and sources of financing of the communist apparatus in Latin America in order to take further measures which

will weaken this apparatus and thus weaken the whole organization.

Assigned to: State
Support: CIA
Target Date: Continuing.

13. Urge the Latin American governments to discourage or prevent the holding of communist and communist-front meetings or conferences in Latin American countries and the attendance of their nationals at such meetings. Use of government facilities of whatever nature for such activities should be denied wherever possible. Develop on a continuing basis appropriate intelligence support.

Assigned to: State
Support: USIA, CIA
Target Date: As circumstances require.

14. As a means of discouraging or preventing travel to communist-sponsored conferences, meetings or schools, either within or outside the hemisphere, seek means of intensifying psychological deterrents to travel, especially on the part of youth, to the Soviet Bloc countries, and encourage Latin American governments to:

a. Adopt regulations with respect to the issuance of passports which would deny a passport to any person who it is expected will use it for travel in the interests of communism; and

b. Adopt visa regulations to regulate and prevent where necessary travel within the Latin American area of Soviet Bloc nationals and persons who are be-

lieved to be travelling in the interests of communism.

Assigned to: State, USIA

Target Date: Immediate.

15. When appropriate undertake to brief Latin Americans who plan to visit Soviet Bloc countries, such briefing to be tailored for the individual concerned. Ask the traveler to observe certain predetermined matters in his field of interest as a means of conditioning his attitude.

Assigned to: State

Support: USIA, . . .

Target Date: As feasible.

16. Encourage the Latin American governments to prevent the extension of Soviet Bloc military influence to Latin America in any form such as sales of Soviet Bloc military equipment in Latin America or the assignment of military advisors or missions.

Assigned to: State and Defense

Target Date: Continuing.

17. While continuing to urge the Latin American governments to prevent the shipment of strategic materials to the Soviet Bloc, make no representations with respect to trade in non-strategic commodities unless it appears:

a. That such trade is or may be accompanied by an influx of Soviet Bloc traders whose purposes may be political as much as commercial; or

b. That a Latin American country is becoming or may become dependent on Soviet Bloc

Para. 8: "Other Measures. The United States should also:

b. "Encourage Latin American governments to continue to prevent direct shipments of strategic materials to the Soviet Bloc and to adopt an import certificate and delivery verification system to facilitate the prevention of indirect shipments."

Para. 5: "The United States should achieve a greater degree of hemisphere solidarity by:

d. "Evidencing greater consideration of Latin American problems at the highest levels of government by according sympathetic attention to representatives of Latin America, by exercising care in public statements relating to the area, and through such methods as visits by high government officials and distinguished private citizens to Latin American states."

trade to such an extent that the system of strategic trade controls could be undermined or means afforded whereby the Bloc could otherwise extract undue economic or political concessions.

Assigned to: State, ICA
Support: Commerce
Target Date: As circumstances require.

18. Through the several departments of the Government, and on a systematic basis, invite high Latin American civilian and military officials to visit the United States for short periods as guests of the United States Government to observe operations and activities in this country.

Assigned to: State, Defense, Labor, Commerce, Treasury, AEC, Agriculture, Justice, Interior
Support: USIA, CIA, ICA
Target Date: Continuing.

19. In connection with the visits of high United States civilian and military officials to Latin America, brief these officials as to what they can do to encourage action against communism, either through public statements, private conversation or other means.

Assigned to: State, USIA, AEC
Target Date: Continuing.

Para. 8. "The United States should also:

a. "Assist and encourage the formation and development of responsible organized labor movements and leadership in Latin American countries such as the Inter-American Organization of Workers (ORIT) as presently oriented."

20. a. Encourage the Latin American governments to adopt laws and policies designed to further the development of an independent labor movement free from communist control while at the same time quietly preventing communists from controlling labor unions. Strengthen our labor programs in the area with this objective in mind.

b. In addition to the training of labor technicians, continue existing programs permitting Latin American trade union leaders to visit the United States in order that they may see how trade unions can be independent, democratic and effective, can learn how to detect communist influence and activities in the labor movement, and may be convinced of the mutual interests and understanding between working people in the United States and in their own countries.

c. Direct U.S. agencies and government-owned companies, and encourage private U.S. companies employing Latin American nationals, to develop and apply exemplary democratic labor-management relations and otherwise to conduct their operations so as to obviate communist allegations of capitalist exploitation and Yankee imperialism.

d. Encourage Latin American governments, where appropriate, to make arrangements—preferably with trade union collaboration—for the training in those

Para. 9: "Increased Stability and Economic Development. . . . [4]

a. "Adopt stable, long term trading policies with respect to Latin American countries . . . .

b. "Through Export-Import Bank loans. . . ."

d. "Strengthen, and program on a longer term basis, technical cooperation, with particular attention to the willingness and ability of each country to use such aid effectively; and increase specialized training in the U.S. of Latin Americans in finance, labor, management, agriculture, business and other specialized fields."

f. "While recognizing the sovereign right of Latin American countries to undertake such economic measures as they may conclude are best adapted to their own conditions, encourage them by economic assistance and other means to base their economies on a system of private enterprise and, as essential thereto, to create a political and economic climate conducive to private countries of an adequate number of workers in order to contribute to the continuous development of capable and intelligent trade union leadership, such training to include instruction on the nature and practices of communism.

Assigned to: Labor, State, ICA
Support: USIA
Target Date: As feasible.

21. In continuing all existing positive United States programs in Latin America, including the Atoms for Peace program, keep always in view, and exploit in practice, their power to weaken communism in Latin America by strengthening and improving the welfare of Latin American governments and peoples and by drawing closer the political, economic, psychological, spiritual and military bonds of Latin American governments and peoples with the United States and the West.

Assigned to: State, Defense, USIA, ICA, Labor, Commerce, AEC, Treasury
Target Date: Continuing.

[4] Ellipses in paragraphs 9, 10, 14, 18, and 13 are in the source text.

investment, of both domestic and foreign capital. . . ."

h. "Utilize, in reference to Latin America, the authority in the Agricultural Trade Development and Assistance Act of 1954 to build nondeteriorating assets valuable to the future of the United States."

Para. 10: ". . . encourage the institution of necessary Latin American government fiscal, budgetary and other measures which are indispensable to economic progress in the area through utilization of the International Monetary Fund, International Bank, Export-Import Bank, and other appropriate means."

Para. 11 and 12: (see above)

Para. 14: ". . . the United States should provide military assistance to Latin America consistent with the agreed plans of the Inter-American Defense Board and other bilateral or multilateral military agreements to which the United States is a party. . . ."

Para. 18: "Where necessary the United States should assist in the protection of sources and processing facilities of strategic materials and land transportation related thereto. . . ."

Para. 20: "In addition, the United States should:

b. "Continue and establish where appropriate, military training missions in Latin American nations."

Paras. 9.a. and 9.f. (see above)

22. Encourage American businessmen doing business with Latin America to adopt such

business policies as would avoid justification for criticism of United States business interests in Latin America.

Assigned to: State, Commerce
Support: USIA
Target Date: Continuing.

23. Stimulate a Latin American awareness that under the free enterprise system, supplemented by private and public financing from their own and free world sources, the economy of the area can be developed faster than by any other means, and that any attempt to apply Soviet economic doctrine would jeopardize the rapid economic progress now being made.

Assigned to: USIA, ICA, Commerce
Target Date: Continuing.

Paras. 11. and 12. (see above)

24. Increase U.S. assistance for the training of all types of specialists, especially teachers and specialists in atomic energy, both as a means of reducing the dependence of Latin American governments on communists who are retained in many cases merely because there is no qualified person to replace them, and to increase U.S. community of interest with Latin America.

Assigned to: ICA, State, AEC
Target Date: As feasible.

25. Increase the number of linguistically and otherwise qualified United States citizens sent to Latin America to teach in schools and universities. Encourage a larger number of prominent Americans to visit Latin American countries for such purposes as lecturing and establish-

ing effective personal contacts, such visits to be at the expense of American universities, colleges or foundations or at the expense of the United States Government.

Assigned to: State

Target Date: Continuing.

26. Expand the educational exchange program and increase support for the Inter-American School Service, in order to take advantage of the capabilities of U.S. educational media, both in this country and abroad, to establish a community of interest for closer orientation toward the United States.

Assigned to: State

Target Date: Continuing.

27. Increase the bi-national center operations and other programs of cultural activities in order to strengthen contacts with intellectual forces in Latin America and appeal to the aspirations of youth.

Assigned to: USIA

Target Date: Continuing.

28. Solicit the cooperation and assistance of private international service groups such as Rotary International, and international professional associations such as the Inter-American Bar Association, wherever it appears that such groups can be useful in achieving the objectives of this Outline Plan.

Assigned to: State, USIA

Target Date: Continuing.

29. Dramatize U.S.-Latin American friendship and focus public attention on the intellectual, technological and social dy-

namism of the U.S., including its leadership in Atoms for Peace, through periodic presentations of exhibits, and other special events activities designed for broad popular impact. Arrange frequent tours by U.S. athletic teams and promote as appropriate joint U.S.-Latin American sports events.

Assigned to: USIA, State, AEC
Support: Defense
Target Date: Immediate.

Para. 13: "The United States should encourage the concept that each of the Latin American states is responsible for maximizing its contribution, by military . . . measures, to:

a. "The internal security of its own territory."

30. Where possible, train selected Latin American military officers in counter-intelligence operations, with emphasis on detection of communist activities, and assist in establishing effective military counter-intelligence organizations throughout Latin America.

Assigned to: Defense
Support: CIA
Target Date: As feasible.

Para. 20: "In addition, the United States should:

c. "Increase the quotas of qualified Latin American personnel for training in U.S. Armed Forces schools and training centers; encourage Latin American countries to fill their authorized quotas for the U.S. Military and Naval Academies; and provide and encourage Latin American countries to fill a similar quota for the Air Force Academy."

31. Encourage Latin American governments to take advantage of the training quotas to U.S. Service academies, Armed Forces schools and training centers, in order that more military and civilian personnel from Latin America, where the military exercise great political influence, may become indoctrinated in our methodology and accustomed to our way of life including anti-communist orientation.

Assigned to: Defense
Support: ICA
Target Date: Continuing.

III. Actions Agreed Upon as Warranting Further Study or Consideration

Paras. 8.a. and 11. (see above)

32. Consider the advisability of exploiting European influence in Latin America for anti-communist purposes by arranging for European intellectuals and free trade union leaders coming to the U.S. as grantees to lecture in Latin America on ideologically important topics, such trips to be under their own or Latin American auspices, but at joint U.S.-Latin American expense.

Assigned to: State

Support: USIA

Target Date: Administrative action to begin at once.

Justification: Such European leaders have considerable influence in various parts of Latin America. IES does not have authority to spend funds for the purpose.

33. Consider the advisability of selecting and financing up to 10 suitable U.S. trade unionists to visit Latin American countries to develop friendship and understanding between the U.S. and Latin American workers as well as to give on-the-spot advice and assistance to trade unions in Latin America.

Assigned to: Labor, State

Support: USIA

Target Date: As feasible.

Justification: It is highly important to establish liaison between U.S. labor organizations and those developing in Latin America. The problems of government sponsorship and methods of financing require additional study.

Annex A

Paper Prepared in the Office of Intelligence Research, Department of State[5]

Washington, April 18, 1956.

COMMUNISM IN LATIN AMERICA

Communist objectives

The underlying objective of the Communists in Latin America is presumed to be the same as that of the Soviet Union—to weaken the United States. In the field of political action the Communists seek to locate power in the hands of groups hostile to the United States, and, short of this goal, to bring pressure to bear against policies of governments cooperating with the United States. Their propaganda is designed to build support for Soviet policies and to maximize friction between the countries of Latin America and the United States. The Communists cannot seriously regard the separation of Latin America and the United States as achievable over the short term in the light of traditional US–Latin America ties, geographical considerations, and economic interdependence of the hemisphere countries. Thus the Communists also seek to strike at the United States by weakening the economic and social fabric of Latin America, which they often describe as the "strategic rear" of the United States.

Communist Strategy and Tactics

Communist strategy is broadly defined by the program of the "national liberation front". All Latin American Communist parties have adopted this program, which provides an almost infinitely flexible standard of operations. It permits alliances with all domestic groups to the extent that they will pursue an anti-US policy or, however temporarily, consent to serve as mouthpieces for such a policy. Thus in the period 1950–52, when anti-US nationalism was on the rise in Latin America, the Communists were willing to support Peron of Argentina, Ibanez of Chile, and the Bolivian MNR. All of these the Communists before and since then have denounced as "fascist". The test has been simply the degree of their willingness to cooperate with the United States.

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[5] Secret.

The Communist statement of objectives of the "national liberation front" includes the extension of democracy and maintenance of constitutional process, economic development, national economic independence, labor unity and freedom, agrarian reform, and welfare for all. These objectives conform to aspirations widely held in Latin America and are the stock in trade of Latin American political leaders seeking a popular following.

The Communists find it easy to pose as the unrelenting champions of Latin American aspirations because they are almost perennially in opposition, and their words do not have to meet a day-to-day test. Further, the aspirations suit Communist requirements in the present phase of Latin American development and Communist strategy, or they can be twisted to Communist purposes. Thus the larger and more illiterate the body of voters, the more useful are extremist political appeals. The firmer the adherence to constitutional process and civil liberties, the greater freedom for Communist propagandists. The more urgency for economic development and freedom from "Wall Street", the more alluring are the possibilities of trade with the Soviet bloc and destruction of ties with US capital and markets. In free labor movements Communists generally are better able to gain positions of leadership or influence, organizing labor unity as an instrument of pressure on the government for Communist objectives. Agrarian reform, as defined by the Communists, is a means to break down the traditional order and to open the way to propagandize the rural masses. In general, by exaggerating nationalist objectives and establishing an unrealistic timetable for fulfilling legitimate aspirations the Communists can forward the objectives of rousing anti-US feeling and striking at the United States by weakening Latin American societies. Moreover, they can carry on this operation with the applause or toleration of a substantial part of the local population.

Target Groups

Under the "national liberation front" strategy the Communists concentrate their efforts on social sectors that are active partisans of change—including labor, both manual and white collar, professionals, especially writers, artists and teachers, and youth and women sectors of these groups. The primary Communist target groups are urban and they have grown in size and influence with the shift of population from rural to urban centers. To the extent that the Communists have developed influence in agricultural areas, this has been a reflection of their strength in the cities, as in Guatemala.

Front Organizations

Front organizations to attract non-Communist support and extend the voice and audience of the Communist parties are of major

importance to the tactics of Latin-American communism. The Communists organize labor, both urban and rural, youth-student groups, women, racial, and other front groups, using special appeals to each—labor unity, higher wages, agrarian reform, benefits to youth, women's suffrage. The special-interest groups are then deployed to support appeals that cut across class and group lines, such as "peace", nationalization of raw material resources, and the cancellation of infringements on sovereignty allegedly involved in collaboration with the United States.

Communist Capabilities

The ability of the Communists to further their objectives depends upon the local climate and upon the strength of their organization. Potentially the climate is favorable to Communist operations throughout the area, where few countries enjoy basic social or economic stability. This is true even though, with the reassertion of Army power or with US assistance, Latin American governments are more moderately oriented than for some years past and are inclined to curb Communist activities. Over the short run the climate is favorable to Communist capabilities only in those countries having a relatively free political life. In other countries, where controls are imposed, the Communists may benefit over a longer period from association with the opposition, although their operations are now being contained.

Communist party organization has a special advantage in Latin America where political organization is in general weak or poorly developed. The value of Communist organization was shown dramatically in Guatemala, where it served as a school and a model to non-Communist revolutionaries. The Communists possess the unique advantage of support from an international organization in building a going concern, which overcomes handicaps that would normally be fatal. They are able to maintain a consistent level of propaganda activity, in contrast to non-Communist political groups which confine their operations to electoral periods and to special issues as they arise, and thus can provide what amounts to professional staff support to the non-Communists in many situations. The Communists are also able to continue low-level activity in most countries even under legal bans and thus are able to revive at short notice when opportunity offers.

Communist Party organization has at one time or another shown significant strength in most countries of the area. At present it is operating under serious handicaps in Guatemala, Peru, and Venezuela, and is semi-submerged in Argentina, Bolivia, Colombia, Costa Rica, and Cuba. In other countries—Brazil, Chile, Ecuador,

Mexico, and Uruguay—the party is relatively free to propagandize and carry on its other activities.

With the destruction of the Communist-dominated regime of Arbenz in Guatemala, the major centers of Communist activity are now found in Brazil and Chile. In these countries the social and economic instability endemic throughout Latin America has been especially evident in an environment of political freedom. Both Brazil and Chile were singled out at the XXth Moscow Party Congress as countries in which the "national liberation movement" is growing, and together they account for almost two-thirds of the Latin American Communist Party membership of about 250,000.

The Chilean Communists, who have a reservoir of strength from their participation in Chile's Popular Front in the first decade of Radical Party rule, 1938–47, backed Ibanez' ultra-nationalist campaign for the presidency and gave the Ibanez regime conditional support in 1952–53. The Communists cooled toward Ibanez as he moved to closer cooperation with the United States and became more intolerant of Communist action and labor pressures. Their objective at present is to mobilize effective opposition to the regime's determined effort to halt inflation with US assistance. Although outlawed by the Radical regime in 1948, the Communists have maintained and made effective use of their labor base and penetration of intellectual circles. In early 1956, following sweeping arrests of both Communist and non-Communist labor leaders agitating against the regime's economic reforms, the Communists reached a political alliance with the Popular Socialist Party, a major left-wing party formerly allied with Ibanez. The pro-Communist political group, whose constituent members polled about one-quarter of the 1953 congressional electoral vote, successfully collaborated with the influential center Radical Party in April 1, 1956 municipal elections and will doubtless seek to maintain this alliance in the 1957 congressional and 1958 presidential elections. The achievement in Chile of a Communist dominated government on the order of the Arbenz regime in Guatemala is unlikely in view of the strength of anti-Communist forces. Nevertheless, the Communists may enjoy considerable success in intensifying Chile's problems and in obstructing reforms needed to strengthen the social and economic fabric of the country.

The present tactics of the Brazilian Communist Party recall Chilean Party tactics during the period of conditional support of the Ibanez regime. In 1955 the Brazilian Communists for the first time came out unequivocally in support of a non-Communist slate in a nation-wide election, and contributed heavily to President Kubitschek's margin of victory. The Brazilian Party has continued its support of the Kubitschek forces since the election, allegedly for the

purpose of preventing a coup d'état by right-wing military elements. The Party's recent strategy has no doubt enhanced its political prestige and widened the audience for Communist propaganda. However, it is unlikely that the Communists will exert strong influence on the Kubitschek administration or that their capabilities will be greatly increased as the result of favors granted by the federal government. In view of the anti-Communist attitude of important military and conservative civilian groups, it would be politically dangerous for Kubitschek to permit any marked increase in Communist strength within the federal bureaucracy or within the trade union movement. Nevertheless the Communists have some leverage within the left-wing of the administration groups. When and if the administration adopts unpopular though necessary economic reforms, the Communists will no doubt seek to draw off the left-wing into a Communist-influenced opposition, as have the Chilean Communists. In the meanwhile the Brazilian Communists are maintaining constant pressure to bear against administration measures of cooperation with the United States.

International Ties

In the period since the outbreak of the Korean War international Communism attention to Latin America has markedly increased. Communist-sponsored trips of Latin Americans to the orbit, less than 100 in 1950, reached as high as one thousand in 1953, with heavy attendance at "peace" and youth front conferences. This travel declined in volume during 1954 in the absence of massive front meetings. Nevertheless with increasing emphasis on cultural missions, the travellers probably had at least as great propaganda value to the Communists as in 1953. In 1955 both the volume and quality of travel reached a high level. Emphasis on "culture" continues, but with evidence at the same time of more concentration on labor groups.

The Soviet Bloc has shown a growing interest in trade with Latin America since early 1953, culminating with Bulganin's offer of closer ties in January 1956. Important Latin American countries—Argentina, Brazil and Uruguay—are vulnerable to Communist propaganda and bloc trade approaches either because they wish to unload export surpluses or as a means of increasing their bargaining power in relation to the United States. Present bilateral trade agreements between the two areas envisaged a total trade level of about $450 million in 1955; actual trade reached $250 million in 1954, and probably increased somewhat in 1955. Since total Latin American trade was in the vicinity of $15 billion in 1954, trade with the Soviet Bloc constituted less than 2% of the total. Argentina, Brazil, and

Uruguay accounted for 96 percent of Latin American trade with the Soviet Bloc in 1954.

Although trade with Latin America has represented about one-quarter of Soviet Bloc trade with underdeveloped areas in 1954–55, the opportunities for Soviet policy in the area are not comparable with those in other underdeveloped areas. In Latin America societies are more stable, and geographic and other factors work against development of a "third position". On the other hand, Latin American countries are alert to possible economic advantages to be derived from current Soviet overtures. Resentment of U.S. trade barriers applicable to Latin America (even though Latin America fares better than any other area in the proportion of exports to the U.S. which enters duty-free) has been intensified by recent U.S. competition in world markets under the surplus disposal program, by contrast with Soviet Bloc offers of new markets. Consequently, in the economic area Soviet policy has opportunities to harass the United States and to complement local Communist campaigns for "national liberation".

The nature of international Communist control of Latin American Communist operations and sources of financing of these operations can not be defined with concrete evidence. Nevertheless, support from abroad is believed to be essential to the maintenance of the Communist apparatus in Latin America: it is assumed to pass through covert channels which have grown with increased travel to the orbit and trade between the orbit and Latin America. There is in addition a constant flow of propaganda material from international Communist headquarters and from Soviet Bloc missions established in the hemisphere, especially those in Mexico and the River Plate countries. International Communist financing of trips to the orbit provides in itself an important contribution to the Latin American Communist organizations. These trips have been of great use in enlisting the essential corps of fellow-travellers, holding those whose sympathies may tend to weaken, and providing live propaganda to Latin American audiences.

Agents of the international Communist front groups—peace, labor, student—have from time to time travelled to Latin America on the business of these organizations. However, the bulk of international Communist business in the area is believed to be transacted by Latin American Communists who have been schooled in the Soviet Bloc. These individuals receive funds and disburse them, take the lead in setting the propaganda tone, and provide a word-of-mouth channel for instructions as to tactics of the Communist fronts. The resolution on Communist intervention in the hemisphere adopted by the Tenth Inter-American Conference at Caracas, March 1954, was directed against this type of contact. Nevertheless, the Communists continue to enjoy freedom to travel on international

Communist business and, as nationals of the Latin American countries, they enjoy the privileges of free transit that these countries extend to each other's citizens.

Probable Future Developments

The "national liberation front" program is expected to continue much in its present form, as a guide line to Communists in Latin America. This program—designed to rally popular pressure for rapid social and economic reform and against cooperation with the United States—has been and will continue to be very flexible, permitting wide adaptation to changing local and international conditions and new opportunities. In the post-Stalin period Communist strategists have sought to widen the area of cooperation with non-Communist groups and there has been reduced emphasis on militant action. Only in Colombia, where the Communists have made common cause with existing guerrilla forces is there evidence of militancy or an attempt to exert all-out pressure on governments.

The conclusions of the XXth Congress of the Soviet Communist Party are not expected to bring any marked shift in Communist tactics within the "national liberation front" strategy. At the same time, new opportunities may open up. The Soviet accent on coexistence, economic cooperation, and traditional diplomacy should work to increase the respectability of its Communist party agencies. More important, the welcoming hand extended by the Moscow Congress to Socialist and other parties of "progress" can help Communism to gain new allies among leftist parties of Latin America. In Chile the Secretary General of the Popular Socialist Party, in commenting on his party's unprecedented decision to ally with the Communists, reportedly hailed the XXth Congress as opening "broad possibilities for developing and consolidating unity between socialists and communists". To the extent that more moderate and economically prudent administrations alienate powerful left-wing groups in Latin America, Communist ability to make use of the new united front themes and to broaden out the "national liberation front" may be expected to increase.

11. Memorandum of Discussion at the 283d Meeting of the National Security Council, Washington, May 3, 1956[1]

Present at the 283rd NSC meeting were the President of the United States, presiding; the Vice President of the United States; the Acting Secretary of State; the Secretary of Defense; and the Director, Office of Defense Mobilization. Others present were the Secretary of the Treasury; the Attorney General (participating in the Council action on Item 3); Mr. Amos J. Peaslee for the Special Assistant to the President for Disarmament; the Director, Bureau of the Budget; the Special Assistant to the President for Atomic Energy; the Director, National Science Foundation (for Item 1); General Nathan F. Twining, Chief of Staff, U.S. Air Force; the Chairman, Joint Chiefs of Staff; Assistant Secretary of Defense Holaday (Item 1); Mr. Samuel E. Clements, Department of Defense (for Item 1); the Deputy Secretary of Defense; Mr. Frank Wisner, CIA (for Items 1 and 2); the Director of Central Intelligence; the Assistant to the President; Special Assistants to the President Anderson and Jackson; the Deputy Assistant to the President; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1–3: "NSC 5220", "CIA Semi-Annual Report", and "U.S. Action in the Event of Unprovoked Communist Attack Against U.S. Aircraft".]

4. U.S. Policy on Latin America (NSC 5432/1; Progress Report, dated March 28, 1956, by OCB on NSC 5432/1)

Mr. Anderson briefed the Council on the highlights of the reference Progress Report, pointing out that the NSC Planning Board had concurred in the recommendation of the Operations Coordinating Board that this policy be reviewed (copy of briefing note[2] filed in the minutes of the meeting).

The President commented that he approved of the recommendation for reviewing our Latin American policy, but that since the review seemed to be based on the potentialities of the new Soviet economic offensive, he wished the Dodge Council[3] to have an opportunity to comment on relevant portions of the revised policy

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason on May 4.

[2] Not found in Department of State files.

[3] Reference is to the Council on Foreign Economic Policy; Dodge was appointed Chairman of the Council on December 1, 1954.

statement before that statement came to the National Security Council for consideration.

Secretary Hoover stated that while there was no great urgency for a review of our policy toward Latin America, he would be glad to have it when it was finally formulated. The present policy on Latin America had been prepared a year or two ago in time for the big conference at Rio de Janeiro. A new conference of the American Republics was now scheduled for the month of February 1957,[4] and the revised policy statement on Latin America should be ready in ample time for this new conference.

The National Security Council:

a. Noted and discussed the reference Progress Report on the subject by the Operations Coordinating Board.

b. Directed the NSC Planning Board to review the policy contained in NSC 5432/1, obtaining, prior to Council consideration, the comments of the Council on Foreign Economic Policy with respect to any policy recommendations relating to foreign economic policies to meet the new Soviet tactics in Latin America.

[Here follows discussion of items 5 and 6: "U.S. Policy Toward Spain" and "Policy Regarding Future Commitments for Foreign Assistance".]

S. Everett Gleason

[4] Reference is to the Economic Conference of the Organization of American States, held at Buenos Aires, August 15–September 4, 1957; for documentation, see Documents 135 ff.

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12. National Security Council Draft Report[1]

Washington, August 20, 1956.

DRAFT STATEMENT OF POLICY ON U.S. POLICY TOWARD LATIN AMERICA

General Considerations

1. The United States has close and friendly political relations with the Latin American countries and generally receives support

[1] Source: Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5613 Series. Secret. A covering title sheet and a transmittal memorandum from Lay to the NSC, (Continued)

from them for U.S. world policies. These close and friendly relations are promoted by the Organization of American States.

2. Trade relations with the other American Republics ($7 billion annually), in most recent years, have been more extensive than with any other area of the world. Private U.S. investment in Latin America ($7 billion) is larger than in any other area except Canada. With their rapid rate of population increase and economic growth, the other American Republics have achieved an increased weight internationally in both economic and political affairs.

3. The governments of the other American Republics frequently are subject to change by military coup d'état In almost all of the Republics the military has a strong, often a decisive influence. Approximately half of the governments are now run by military officers, who originally assumed power by revolution.

4. There are strong nationalistic feelings in all of these Republics which often are expressed as anti-Americanism. In some countries, this nationalism expresses itself strongly against proposals for the development of natural resources, especially petroleum, by U.S. private capital. While many of these Republics are unwilling to adopt laws and policies which will create a climate favorable for the development of their countries by private capital, both domestic and foreign, there is an intense desire for rapid economic progress and higher standards of living. Because the national income of the United States is roughly 8 or 9 times that of the other American Republics combined, Latin America looks to us for assistance and expects that it should be forthcoming.

5. We have a long record of cooperation with these Republics in the development of their economies. However, some sectors in Latin America complain that our assistance is inadequate. Factors motivating these sectors include political pressure for more rapid economic development, domestic political considerations, and the feeling that any given level of U.S. aid can be increased through complaints. These complaints are often reflected in the argument that the United States accords to Latin America an inadequate proportion of its total foreign aid. The annual increase in Latin America's gross national

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(Continued)

August 20, are not printed. The memorandum states, inter alia, that a financial appendix would be circulated at a later date, that comments concerning paragraphs 16–e and 20–28 by the CFEP were being requested prior to Council consideration of NSC 5613, and that NSC 5613, if approved, was intended to supersede NSC 5432/1. On August 27, Lay transmitted the Financial Appendix to all holders of NSC 5613, together with revised pages to correct the spelling of the word "contributing" in paragraph 14, line 6, and the placing of brackets in paragraph 34–a. (Memorandum from Lay, August 27; *ibid.*, S/S–NSC Files: Lot 63 D 351, NSC 5613—Memoranda) NSC 5613 was initially scheduled for Council discussion on August 30, but was thereafter rescheduled to September 6.

product since the last war has been on the order of 5.5% as compared to 5% in Western Europe and 4% in the United States. This is partially offset by the rapid growth of population in Latin America, averaging over two percent annually.

6. There is no danger of overt Communist attack against any Latin American country except in the context of general war. Communists have no present prospect of gaining control of any Latin American state by electoral means. They do, however, have the capacity to achieve direct participation in national politics and the governments of some countries, though not equal to that which they formerly enjoyed in Guatemala. Moreover, the Soviet bloc is seeking broader trade and economic and cultural relations with Latin American countries not only for economic reasons but in order to disrupt our friendly relations with Latin America, to subvert the countries in the area, and to destroy the inter-American system. Generous and vigorous implementation of U.S. policies in the area is essential if the Soviet effort is to be frustrated. The USSR seeks to distort our close relations with the other American Republics by accusing the United States of dominating and subjugating Latin America and by accusing the Latin Americans of being subservient to the United States. The Soviet Union is supported in these charges by highly vocal local Communist and other anti-U.S. elements. On occasion Latin American governments seek to emphasize their independence by taking positions at odds with ours and sometimes detrimental to our interests.

7. The foundation of our military relations with Latin America is the Rio Treaty. In planning its own defense, the United States must take account of Latin America in view of its geographic proximity and our dependence on Latin American resources. Our military cooperation with Latin America is especially valuable because of the unique position the military occupies in Latin American politics. We have a highly developed pattern of military relations with Latin America, including the Inter-American Defense Board, joint military missions, attachés, missions, military assistance agreements and bases and base rights. Many Latin American states seek to obtain military equipment beyond militarily justifiable requirements: (a) to enhance their prestige; (b) as a result of inter-American rivalries, or (c) to strengthen the position of military groups in internal affairs. The Latin American countries continue to acquire and use substantial quantities of European military equipment. Their purchase of the major share of their military equipment in Europe, even when confined to non-communist sources, adversely affects U.S. influence in Latin America, and results in a varied assortment of equipment for which it would be difficult to obtain spare parts in time of war.

Policy Conclusions

8. It is essential that we strengthen our close political ties with the other American Republics and keep them associated with us in support of our world policies. The Organization of American States, with its subsidiary organizations, is one of the primary instruments through which we can accomplish this end, at the same time avoiding any appearance of unilateral action or intervention.

9. Close economic relations with Latin America are a valuable asset to the United States and will become even more important as the economies of these Republics are further developed. Accordingly, it is important to preserve and improve the trade and investment relations between the United States and the Latin American nations.

10. The desire for more rapid economic progress and higher standards of living is a major political issue in Latin America. The maintenance of friendly relations with Latin America requires us to assist the other American Republics in carrying forward their constructive economic development programs and to become associated in Latin American thinking as a partner in economic progress. The United States should promote the development by private initiative of sturdy, self-reliant economies in Latin America which do not require continuing grant assistance from the United States.

11. Closer relations between the Soviet Union and Latin America are against the security interest of the United States. Some Latin Americans may respond favorably to some of the Soviet bloc offers, especially for expanded trade, or attempt to use the threat to accept Soviet offers as a weapon to obtain increased U.S. assistance. The Soviet overtures only serve to emphasize the urgency and necessity of carrying out U.S. policies vigorously, especially loan and trade policies, in order to demonstrate the benefits to be derived from a free private enterprise system and from close relations with the United States. We should be prepared, however, to take action appropriate to the occasion if a Latin American state establishes close economic or other ties with the Soviet bloc.

12. The unique political position of military groups in Latin America makes it important to the United States to maintain influence with these groups. A major factor in the maintenance of this influence with the military is U.S. ability to provide military training and equipment for their forces on a cash, credit or grant basis if necessary. In some cases it is in U.S. interest to provide such equipment primarily for political reasons.

13. The purchase and maintenance of non-essential military equipment by Latin American states generally reduce their capability to improve domestic living standards and to borrow abroad. It is, therefore, important for the United States to attempt to dissuade

these countries from purchasing from any source military equipment not essential for military purposes.

14.[2] In addition to being a source of vital strategic resources, Latin America provides bases important to our security. Furthermore some of the Latin American nations—Argentina, Brazil, Chile, Colombia, Cuba, the Dominican Republic, Mexico, Peru, Uruguay and Venezuela—are capable, with U.S. assistance, of contributing to the protection of the hemisphere's air and sea lines of communications and[3] strategic areas and installations.[4] Thus there will be some cases where it is in the interest of the United States to provide or continue to provide military equipment and training to support these capabilities. We should also be prepared to provide equipment and training on a grant basis for internal security to meet a bona fide Communist threat.

Objectives

15. a. Keep the other American Republics friendly toward the United States and retain their support of our world policies.

b. Encourage the development of stable political systems along democratic, representative lines.

c. Encourage the growth of sturdy, self-reliant economies based upon the free enterprise system.

d. Reduce and eventually eliminate Soviet bloc and Communist influence in the area.

e. Obtain adequate production of and access to materials essential to our security.

f. Obtain the participation in and support of measures to defend the hemisphere.

General Courses of Action

Political

16. Achieve a greater degree of hemispheric solidarity by:

a. Strongly supporting and strengthening the Organization of American States to make it a model of relationships among free nations, utilizing it wherever feasible to achieve our objectives, and promoting increased financial support on a proportional basis.

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[2] Inserts containing revised draft language for paragraphs 14, 22, 32, 34–b, and 35, recommended by the NSC Planning Board on September 14, 1956, are not printed as part of this paper, but see Document 14.

[3] Budget proposes deletion of the words "hemisphere's air and sea lines of communication and". [Footnote in the source text.]

[4] Budget proposes addition at this point of the words "within their own borders." [Footnote in the source text.]

b. Consulting with the Latin American states, whenever possible, before taking actions which will affect them or for which we wish their support.

c. Giving special emphasis to the maintenance of a spirit of partnership and equality, promoting close personal relations with Latin American leaders and encouraging reciprocal visits by high Government officials and distinguished private citizens.

d. Refraining from . . . unilateral intervention in the affairs of the other American Republics, without prejudice to multilateral action through the inter-American system, resorting to unilateral action only as a last resort to protect our vital interests.

e. Taking into consideration, in determining the extent of U.S. assistance and support to particular American states, their willingness and ability to cooperate with us in achieving common objectives. If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to diminish governmental economic and financial cooperation with that country, when such action seems likely to weaken the Soviet ties; doing so, however, without necessarily relating those measures openly to the country's attitude.

f. Assisting American states which are resisting pressures from their neighbors, whenever such pressures are inimical to U.S. interests and the inter-American system.

17. a. Encourage, through consultation, prudent exchange of information and other available means, individual and collective action against expansion of Soviet bloc influence or Communist or other anti-U.S. subversion or intervention in any American state.

b. In the event of threatened or actual domination of any American state by Communism, promote and cooperate through the OAS in the application of measures available under the Rio Treaty (including military) to the extent necessary to remove the threat to the security of the hemisphere, taking unilateral action only as a last resort.

18. a. Encourage acceptance and implementation by interested states of the principle that dependent and colonial peoples in this hemisphere should progress by orderly processes toward a self-governing status. Toward this end, we should continue our technical cooperation programs in these areas.

b. When disputes between American and non-American states over dependent territories cannot be settled by direct negotiations, encourage peaceful settlements by other methods available to the parties.

19. Assist and encourage programs designed to develop a social consciousness and responsibility on the part of management and labor, the improvement of labor-management relations, and the continued growth of democratic, responsible trade unions.

20. Enlist the support of Latin American governments to prevent direct and indirect shipments of strategic materials to the Soviet bloc.

Economic

21. Maintain stable, long-term trading policies with respect to Latin America designed to expand existing levels of inter-American commerce [by resisting, wherever feasible, efforts to limit the access of Latin American exports to U.S. markets.] [5] In order to achieve a high level of inter-American trade (a) press strongly for reciprocal reductions of barriers to such trade and (b) take the lead by reducing further our own trade restrictions over the next few years, with due regard to national security and total national advantage.

22. Be prepared to assure, through the Export-Import Bank, the financing of all sound economic development projects, for which private capital is not readily available[6] provided each loan is (a) in the interests of both the United States and the borrowing country; (b) within the borrower's capacity to repay; (c) within the Bank's lending capacity and charter powers; and (d) sought to finance U.S. goods and services.

23. Support applications for sound development loans which are submitted to the IBRD.

24. Only if actions under paragraphs 21, 22 and 23 are inadequate, and then only with the approval of the President or his designee in each case, make soft dollar loans or provide grant economic assistance to meet conditions of temporary emergency affecting United States interests which the local government cannot solve with resources at its command. Encourage the beneficiaries of such programs to relinquish U.S. aid and to become self-reliant as soon as it is practical to do so. Notwithstanding the foregoing, continue our aid to the Inter-American Highway and the Rama Road, and encourage the use for economic development purposes in the purchasing countries of the local currency proceeds obtained through the sale of surplus agricultural commodities.

25. Strengthen and program, on a longer term basis, technical cooperation; provided, always, that each country has a genuine interest in and desire for our participation in programs undertaken by them, and that our participation makes a contribution toward the achievement of our foreign policy objectives commensurate with its

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[5] Agriculture and Commerce propose deletion. [Footnote and brackets in the source text.]

[6] Commerce proposes the addition at this point of the words "except in cases where habitual and serious discriminatory practices by the borrowing government cause the unavailability of private capital". [Footnote in the source text.]

cost. Within these policy limits, increase specialized training of Latin Americans in the United States and third countries.

26. While recognizing the sovereign right of Latin American states to undertake such economic measures as they may conclude are best adapted to their own conditions, encourage them by economic assistance and other means to base their economies on a system of private enterprise, and, as essential thereto, to create a political and economic climate conducive to private investment, of both domestic and foreign capital, including:

a. Reasonable and non-discriminatory laws and regulations affecting business.
b. Opportunity to earn and, in the case of foreign capital, to repatriate a reasonable retufn.
c. Reasonable rate-making policies in government-regulated enterprises.
d. Sound fiscal and monetary policies.
e. Respect for contract and property rights, including assurance of prompt, adequate and effective compensation in the event of expropriation.

27. In carrying out programs involving disposal of U.S. agricultural surpluses abroad:

a. Give particular attention to the economic vulnerabilities of the Latin American countries and avoid, to the maximum extent practicable, detracting from the ability of these countries to market their own exportable produce.
b. Give particular emphasis to the use of these resources to promote multilateral trade and economic development.

28. Where appropriate, encourage diversification of Latin American economies on a sound basis.

Information and Related Activities

29. Expand and make more effective information, cultural, education and exchange-of-persons programs, with particular emphasis on aid to American schools abroad, bi-national cultural centers, and exchange-of-persons programs, stimulating private groups to undertake appropriate projects.

30. Intensify appropriate . . . efforts to combat the activities of Communist and other elements hostile to the United States, without . . . unilateral intervention.

Military

31. Assume primary responsibility for hemispheric military operations in the Atlantic and Pacific Oceans and the Caribbean Sea, including the sea and air approaches to the Panama Canal, and seek

from the states concerned acceptance of U.S. military control of the defense of these sea areas.

32. Encourage acceptance of the concept that each of the Latin American states is responsible for its own internal security and for providing, through effective military and mobilization measures, a contribution to the defense of the Hemisphere by:

a. The defense of coastal waters, ports and approaches thereto, bases and strategic areas and installations located within its own territory, and routes of communication associated therewith.

b. Its participation in combined operations in support of U.S. military responsibility under paragraph 31 above, including defense of the Panama Canal, where its location and resources make such participation feasible.[7]

33. Make available to Latin American states, on a grant basis if necessary, the minimum military equipment necessary to assist them to carry out the limited missions in the foregoing paragraph.

34. a. Recognizing that Latin American requests for military equipment are requirements against limited MDAP funds and supplies of U.S. military equipment, that their purchases of military equipment, especially on credit, have an adverse effect on their borrowing capacity and our ability to make loans to them for economic development purposes; and that the denial of their requests has disadvantages for the United States, discourage Latin American governments from purchasing military equipment not essential to the missions in paragraph 32. [Notwithstanding the foregoing, if a Latin American government cannot be dissuaded from purchasing unneeded military equipment, and if it is essential for U.S. political interests, make additional equipment available on a cash, credit or, under extraordinary circumstances, grant basis.][8]

b. In order to be in a position effectively to supply military equipment on a reimbursable basis in accordance with this and the foregoing paragraph:

(1) Offer to Latin American governments military equipment at competitive prices.

(2) Make sales of military equipment to Latin American governments on credit.

35. Seek to discourage purchases by Latin American governments of military equipment in Europe primarily by assuring the Latin American governments that we will endeavor to fill their essential requirements on reasonable terms. Wherever feasible, seek

[7] Budget proposes deletion of subparagraph 32–b. [Footnote in the source text.]

[8] Treasury and Budget propose deletion. [Footnote and brackets in the source text.]

to prevent European countries from selling military equipment to Latin American states.

36. Seek to develop a conviction that collaboration, including military purchases, by any of the American states with Communist nations would be a serious hazard to all of the nations of this hemisphere.

37. Proceed vigorously with the implementation of the program for strengthening the local police, constabulary and related forces necessary to maintain internal security and to destroy the effectiveness of the communist apparatus in the Western Hemisphere in countries found to be vulnerable to Communist subversion.

38. If participation of Latin American military units is required in future extra-continental defense actions, provide logistical support, if necessary without reimbursement, to such forces.

39. Take action as necessary, . . . to insure the continued availability to the United States of bases and base rights in Latin America that are considered vital to the security of the United States.

40. Seek the continued cooperation of the Latin American states in carrying out the hemisphere mapping program.

41. Continue our active participation in the Joint Military Commissions we have with Brazil and Mexico, and make effective use of the IADB to achieve our military objectives.

42. Foster closer military relations with the Latin American armed forces in order to increase their understanding of, and orientation toward, U.S. objectives and policies.

43. Continue, and establish where appropriate, military training missions in Latin American states, countering any trend toward the establishment of military missions, or agencies or individuals with a similar function, other than those of the American Republics.

44. Provide adequate quotas for qualified personnel for training in U.S. armed forces schools and training centers, encourage Latin American states to fill their authorized quotas at the three Service Academies.

45. [Study the feasibility of encouraging the use of the Latin American military personnel for a constructive role in economic development projects.][9]

46. Encourage, to the maximum extent consistent with the needs and capabilities of each Latin American nation, the standardization along U.S. lines of military doctrine, unit organization and training.

[Here follows a Financial Appendix, virtually identical to the one attached to NSC 5613/1; see Document 16.]

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[9] Defense and JCS propose deletion. [Footnote and brackets in the source text.]

13. Memorandum of Discussion at the 296th Meeting of the National Security Council, Washington, September 6, 1956[1]

Present at the 296th meeting of the Council were the President of the United States, presiding; the Secretary of State; the Deputy Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Acting Secretary of Commerce (for Item 2); the Special Assistant to the President for Disarmament; the U.S. Representative to the United Nations; the Acting Director, Bureau of the Budget; the Director, International Cooperation Administration; the Director, U.S. Information Agency; the Under Secretary of State; Assistant Secretary of Defense Gray; the Chairman, Joint Chiefs of Staff; the Acting Director of Central Intelligence; the Assistant to the President; William H. Jackson, Special Assistant to the President; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the the main points taken.

[Here follows discussion of item 1, "Significant World Developments Affecting U.S. Security".]

2. U.S. Policy Toward Latin America (NSC 5613; NSC 5432/1; NSC Action No. 1548; Memos for All Holders of NSC 5613, dated August 27[2] and 31, 1956;[3] Memos for NSC from Executive Secretary same subject, dated August 31[4] and September 5, 1956[5])

In the course of his briefing of the National Security Council, Mr. William Jackson, newly appointed Special Assistant to the President for National Security Affairs, first summarized the general content of the proposed new policy on Latin America (copy of

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason on September 7.

[2] Reference is to Lay's memorandum transmitting the Financial Appendix to holders of NSC 5613; see footnote 1, *supra*.

[3] Reference is to Lay's memorandum transmitting to holders of NSC 5613 revised pages for insertion into the Financial Appendix. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5613—Memoranda)

[4] Reference is to Lay's memorandum transmitting to the NSC a memorandum by Randall to Dillon Anderson, dated August 30, containing the CFEP's comments concerning NSC 5613. (*Ibid.*)

[5] Reference is to Lay's memorandum transmitting to the NSC a memorandum by the Joint Chiefs of Staff, signed by Radford to Secretary of Defense Wilson, dated August 31, containing the comments and recommendations of the Joint Chiefs on NSC 5613. (*Ibid.*)

briefing note filed in the minutes of the meeting). Upon concluding this summary, he asked the Council to go back over the paper in order to resolve the splits in certain paragraphs and to take account of the recommendations of the Joint Chiefs of Staff and of the Council on Foreign Economic Policy for further changes.

Accordingly, Mr. Jackson invited the Council's attention first to the change recommended by the Joint Chiefs of Staff in paragraph 16–e, on page 9 of NSC 5613. As originally written by the Planning Board, the sentence in question read as follows:

"If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to diminish governmental economic and financial cooperation with that country, when such action seems likely to weaken the Soviet ties; doing so, however, without necessarily relating those measures openly to the country's attitude."

The Joint Chiefs of Staff proposed to change the sentence to read as follows:

"If a Latin American state should establish with the Soviet Bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to employ appropriate political, military and economic measures, in order to weaken the Soviet ties."

The Joint Chiefs' reason for the change was their view that policy should not serve to restrict counteractions to the economic and financial fields. The nature of the counteractions to be applied and whether or not they should be openly related to the country's attitude, should be matters for determination under the circumstances then existing.

Initially the President said that the Joint Chiefs' language seemed to him simpler, and he was inclined to favor the change they proposed. Secretary Dulles, however, believed that a possible objection to the language of the Joint Chiefs was that it appeared so broad as not to give very clear guidance to those who were obliged to carry out the policy. He accordingly recommended that certain specific language be added to the more general language proposed by the Joint Chiefs. The President observed that this issue struck him as largely a matter of semantics. After a brief discussion the Council agreed on language which essentially included both that proposed originally by the Planning Board and that proposed by the Joint Chiefs of Staff.

Mr. Jackson then invited the Council's attention to the next split, in paragraph 21 on page 10 of NSC 5613. The paragraph dealt with ways and means of maintaining stable long-term trading policies with respect to Latin America. The majority of the Planning Board had wished to specify one such means by including language

which called for "resisting, wherever feasible, efforts to limit the access of Latin American exports to U.S. markets." The Commerce and Agriculture representative on the Planning Board proposed that this statement be deleted. In the same paragraph, moreover, the Council on Foreign Economic Policy had recommended the insertion of language endorsing the application of the most-favored-nation principle. At the end of his explanation of the proposed changes in paragraph 21, Mr. Jackson invited the comments of the Acting Secretary of Commerce, Mr. Walter Williams.

Secretary Williams first stated that Commerce was happy to go along with the CFEP recommendation for a reference to the application of the most-favored-nation principle. On the other hand, the Department of Commerce still believed that the language with respect to resisting efforts to limit access of Latin American exports to the United States should be deleted. There were, he said, four major reasons behind the attitude of the Department of Commerce. In the first place, there were already certain limits on Latin American exports to the United States established by law. An example was the Sugar Act. Accordingly, certain legal restrictions already existed.

Secretary Dulles interrupted to comment that Secretary Williams had slurred over the phrase "wherever feasible" pretty rapidly. Naturally, said Secretary Dulles, if the law of the land imposes certain restrictions on Latin American imports to the United States, it would not be feasible to contravene the law.

The second major reason for the Commerce proposal to delete this language, said Secretary Williams, was the conviction of the Department of Commerce that it was inappropriate to base a statement favoring freer access of foreign imports to U.S. markets solely on the Latin American region.

Thirdly, said Secretary Williams, Commerce felt that there were a lot of other ways to maintain and establish long-term trading policies other than by resisting efforts to limit Latin American exports to the United States. It seemed unwise to single out for special mention only one such means.

Lastly, Secretary Williams said that the Department of Commerce felt it wiser to leave this statement in very general terms, thus avoiding the trap of getting ourselves into a restrictive box with these particular words.

At the conclusion of Secretary Williams' statement, the President said he could not but feel that this statement made very good sense. The President also pointed out that obstacles to trade between the United States and the Latin American Republics could be created by the Latin American Republics as well as by ourselves. Secretary Humphrey said he agreed with the Department of Commerce in favor of deletion of the controversial language. Secretary Dulles

added that he did not think the issue very important, and would have no objection to deletion. Accordingly, it was agreed to delete this language.

Mr. Jackson then turned to paragraph 22, on page 11 of NSC 5613, reading as follows:

"Be prepared to assure, through the Export-Import Bank, the financing of all sound economic development projects, for which private capital is not readily available, provided each loan is (a) in the interests of both the United States and the borrowing country; (b) within the borrower's capacity to repay; (c) within the Bank's lending capacity and charter powers; and (d) sought to finance U.S. goods and services."

He then called attention to the proposal by the Department of Commerce to add, after the word "available" in the above paragraph, the words "except in cases where habitual and serious discriminatory practices by the borrowing government caused the unavailability of private capital". When called upon to elucidate the reasons for adding this language, Secretary Williams confined himself to pointing out that the Latin American Republics were often able to do things over which the United States had no control. It was essential to keep an eye on discriminatory practices against private capital. To leave out the language proposed by Commerce would seem to condone such malpractices.

Secretary Dulles asked the President if the Council might hear from Under Secretary of State Hoover on this issue. Secretary Hoover pointed out that the Export-Import Bank did not lend money for petroleum development to Latin American countries where government oil monopolies existed. He nevertheless thought that a caveat like that proposed by the Department of Commerce would be a useful addition to the policy statement.

Secretary Dulles pointed out that there would be a danger in adopting the Commerce language if it should suggest that on account of discriminatory practices by a Latin American country in one particular field, the United States was prevented from making any loans in any field to the countries in question. He pointed out that we made loans to Mexico and Brazil despite the fact that petroleum production in both countries was a government monopoly.

Secretary Humphrey—speaking, he said, in this instance for the banks—said he would like to see this paragraph, if retained at all, be as short as possible and to contain as few limitations as possible. After all, before any of these loans were made to foreign nations, there were a series of screenings to assure that they were appropriate.

The President said that what bothered him about the Commerce proposal was that it seemed to commit the United States to measuring its own national interests with the yardstick of the internal policies of some foreign government. Such a course of action could be dangerous.

Secretary Dulles pointed out that the Administration had a very high-level committee to pass on all Export-Import Bank loans before they were finally made. Accordingly, the Commerce caveat seemed unnecessary to him. Secretary Humphrey said that by and large he would prefer to see the whole paragraph left out, but if the Council decided to retain it, he had a few changes in language to suggest, which he proceeded to enumerate. Secretary Williams agreed with Secretary Humphrey in suggesting deletion of the entire paragraph on grounds that the conditions under which the Export-Import Bank was enabled to make loans was set forth in legislation. Secretary Dulles did not wholly agree. While the law imposed certain limitations on the capability of the Bank to make loans, the policy statement in paragraph 22 was a positive recommendation to the Bank to make loans to Latin American countries provided the legal conditions were met. He accordingly favored the retention of the paragraph, but the deletion of the additional language proposed by the Department of Commerce.

Secretary Hoover also proposed certain changes in the paragraph, including deletion of the term "all" in the second line. He believed that inclusion of this word made the guidance to the Export-Import Bank too broad. The President spoke in favor of generalizing the language of the paragraph as far as possible, including deletion of specific reference to the Export-Import Bank as a lending agency. Secretary Dulles replied that he could not follow this last suggestion of the President, since this paragraph as originally written was intended to be clear policy guidance to the Export-Import Bank on loans to Latin American countries. After all, said Secretary Dulles, the Export-Import Bank was an instrument of national policy. The President thereupon agreed to the retention of the reference to the Export-Import Bank, but suggested that the word "encourage" should replace the word "assure" in the first line of the paragraph. As thus amended, paragraph 22 was agreed upon by the Council.

Thereafter, Mr. Jackson pointed out the split in paragraph 32, on page 14 of NSC 5613, and the related split in paragraph 14, on page 7, dealing with the missions of the armed forces of the Latin America Republics. He pointed out that the Bureau of the Budget proposed deletion of paragraph 32–b which read as follows:

"32. Encourage acceptance of the concept that each of the Latin American states is responsible for its own internal security and for providing, through effective military and mobilization measures, a contribution to the defense of the Hemisphere by:[6]

. . . . . .

"b. Its participation in combined operations in support of U.S. military responsibility under paragraph 31 above, including defense of the Panama Canal, where its location and resources make such participation feasible."

Mr. Jackson then called upon the Acting Director of the Bureau of the Budget[7] to explain the position of the Bureau.

Mr. Jones explained that the opposition of the Bureau of the Budget to the above policy statement was related to two main things, timing and resources. As to timing, the best moment to restrict our military assistance programs to foreign nations was before these nations got themselves accustomed to enjoying more extensive U.S. programs of military assistance to them. As to resources, Mr. Jones pointed out that U.S. resources are not adequate to finance these more extended missions for the armed forces of the Latin American countries. Indeed, he said, both NSC 5613 and the comments of the Joint Chiefs of Staff clearly recognized the fact that the military contributions and missions of the Latin American countries largely depended on the provision of U.S. military assistance. In addition to these specific objections to the enlarged missions in paragraph 32–b, Mr. Jones pointed out the more general objection of the Bureau of the Budget that, while this policy paper seemed to add considerably to the size of U.S. commitments to assist the military forces of the Latin American countries, there was nowhere in the paper any compensatory reduction in the size of U.S. programs to assist the Latin American states.

Secretary Dulles said that he had some observations to make on the paragraphs of NSC 5613 dealing with military matters. Implicit in this policy statement, said Secretary Dulles, was a problem which ought to be made explicit. This was the question as to whether the United States really wanted to build up large military establishments in these Latin American Republics. He for one did not believe that it was wise to expand the missions and functions of the military forces of the other republics to a point which would require these republics to maintain extensive military establishments. In many cases the governments of these republics were not sufficiently stable to enable us to estimate reasonably what use they will make of larger military

[6] Omission indicated in the source text.
[7] Arnold R. Jones.

establishments. It was to be feared that in some cases one country would use its enlarged military establishment to threaten its neighbors. Accordingly, Secretary Dulles expressed the belief that the United States would be better off if by itself alone it undertook to protect the sea lanes of communication and the Panama Canal, rather than to provide military establishments in the other republics sufficiently large to enable these republics to assist the United States in executing such far-flung missions. If we expand the missions of the Latin American forces, for which we will be obliged to build up large military establishments, we will presently find ourselves getting into a series of very difficult problems.

Secretary Humphrey—speaking, as he said, for the Treasury Department—agreed that the present policy paper obviously did not really contemplate any very large expenditures for building up the military forces of the other American republics. Nevertheless, if you chose to follow the precise wording in paragraphs 31 through 33 in a literal way, it would be possible to build up enormous military establishments in the other American republics. If we ever did follow such a course of action, said Secretary Humphrey, we would be getting ourselves way out on a limb.

Secretary Dulles said he certainly favored deletion of the phrase "and routes of communications associated therewith", as presently set forth in paragraph 32–a. The President said that he had assumed that this reference to routes of communications had reference only to local routes of communication within and adjacent to the territory of one of the Latin American states. Mr. Jackson and Secretary Humphrey, on the other hand, said that they believed the reference to apply to more extended and remote communication lanes.

Admiral Radford then asked if he might be heard. Speaking with emphasis, he pointed out that the proposed new policy statement in NSC 5613 actually represented a "watering-down" of our existing policy on Latin America, NSC 5432/1. Moreover, our military assistance programs to the Latin American Republics, with the possible exception of Brazil, had been negligible in character, despite heavy pressure by the State Department to increase the size of these programs. Accordingly, Admiral Radford warned that it would be very dangerous indeed to change abruptly our policy of military assistance to Latin America. If we made drastic changes there would be serious repercussions. It was already proving difficult to keep the Latin American Republics in line because in fact we provide them with so little military assistance. It would be worse if we proceeded to still further reductions. Moreover, Admiral Radford pointed out, if these Republics were unable to secure from us the military matériel that they believed they needed, they would certainly secure such matériel from other sources. The really important objective in

his mind, said Admiral Radford, was to keep the good will of Latin America. This was not easy. For example, the Joint Chiefs of Staff had been virtually unable to approve any military grant aid to any Latin American Republic either because the military assistance funds available were insufficient or because the precise terms of the legislation covering graid [*grant?*] aid were so restrictive as to prevent the extension of such aid to Latin America.

Secretary Humphrey said he sympathized with Admiral Radford's dilemma, but wondered whether, nevertheless, we could not put in limiting language so that our military assistance programs to the Latin American countries would not be completely open-ended. He pointed out that the present policy seemed to indicate that we were going to extend all our military assistance on a straight grant basis. Admiral Radford replied by pointing out that the actual wording of paragraph 33 called for the extension of military assistance to Latin American states on a grant aid basis only "If necessary". He repeated his view that the United States was spending too little rather than too much in the way of military assistance in Latin America. He reiterated his warning likewise that a drastic change in our policies toward Latin America in this respect should not be made until the Council had had a long hard look at the probable results of such a change. In any case, he added, the State Department would be more severely affected by such a drastic change than would the Defense Department or the Joint Chiefs of Staff.

The President said he had an observation to make on this general subject. It had been his experience that the more armament you give to a foreign country the more dependent that country becomes on you for replacements, spare parts, ammunition, and the like. We could get into an awful jam if and when the shooting started. On the other hand, the President said, he agreed with Admiral Radford that what we want to preserve above all is the good will of the Latin American Republics and, he added, to assure their internal security, without which their good will would be useless to us. But beyond the capability to maintain internal security, the President expressed doubt as to whether much could be expected by way of capabilities and missions for the armed forces of the Latin American countries. He concluded with a warning that the United States must not be put into the position of being the sole source of supply of military equipment for all the countries of the world. We should try to induce our friends and allies to begin to produce their own spare parts and ammunition.

Admiral Radford went on to state that our greatest problem in Latin America, from the military viewpoint, was our inability to prevent the Latin American states from buying arms elsewhere if they cannot buy them in the United States. Perhaps the maintenance

of Latin American good will remained our greatest single objective in the whole area of foreign policy. Before we made such changes as the Council seemed prepared to make in our policy toward the southern hemisphere, he asked again for a long hard look.

Governor Stassen agreed with Admiral Radford that the Council should move very slowly in undertaking any drastic change in our policy toward the other American republics, not least of all because such change might provide dangerous openings to the Soviet Union to move in on Latin America.

Secretary Dulles said that he could not disagree with Admiral Radford's general position, nor with the specific reasons that Admiral Radford had cited in defense of this position. Secretary Dulles said he started from the premise that the ideal course of action was to hold down the military establishments of the other American republics to the general level which would enable them to provide for their own internal security. In practices, however, Secretary Dulles admitted, we could not always achieve this ideal. Accordingly, if a Latin American state felt that it must have more by way of armed forces than we thought requisite for its internal security, it was better that such additional armament come from U.S. stocks and supplies of arms than from some foreign source. In concluding, Secretary Dulles said that his only real objection to the military paragraphs of NSC 5613 was that instead of applying a correct standard by which to measure the amount of military assistance we should provide, the paper sought to increase the amount of military assistance to Latin America by enlarging unrealistically on the roles and missions of the Latin American military establishments.

The President then suggested that this portion of NSC 5613 should be rewritten on what he called an "honest" basis. In other words, we should set forth clearly what we regard as the appropriate level of military strength which each Latin American nation should maintain for military reasons. We should then recognize that these levels may have to be raised for political or for hemisphere defense reasons. These latter would constitute special cases.

Admiral Radford warned that if NSC 5613 did not include some reference to the Latin American military mission of assisting the United States in the defense of sea lanes, communications, and the Panama Canal, the Joint Chiefs of Staff would be debarred from making available any grant aid whatsoever to a Latin American state. This situation, Admiral Radford explained, derived from the fact that our laws require that any grant military assistance to Latin American nations be extended only if such assistance makes a contribution to the protection of U.S. security.

Secretary Dulles commented that it now seemed clear to him that the references in these paragraphs to the defense of the sea

lanes and of the Panama Canal were put in the paper not because we believed that the Latin American nations would be in a position to assist in defending these communications or the Canal, but rather in order to satisfy the terms of the legislation governing the extension of grant military aid to Latin America.

The President stated that these military paragraphs should be taken back to the Planning Board and revised.

Mr. Jackson then went on to paragraph 34–a, on page 15 of NSC 5613, which read as follows:

"Recognizing that Latin American requests for military equipment are requirements against limited MDAP funds and supplies of U.S. military equipment; that their purchases of military equipment, especially on credit, have an adverse effect on their borrowing capacity and our ability to make loans to them for economic development purposes; and that the denial of their requests has disadvantages for the United States, discourage Latin American governments from purchasing military equipment not essential to the missions in paragraph 32. [Notwithstanding the foregoing, if a Latin American government cannot be dissuaded from purchasing unneeded military equipment, and if it is essential for U.S. political interests, make additional equipment available on a cash, credit or, under extraordinary circumstances, grant basis.]"[8]

Mr. Jackson pointed out that Treasury and Budget proposed to delete the last and bracketed sentence of paragraph 34–a. The President, however, said that he did not see anything particularly troublesome in the bracketed language. After all, we were not proposing to provide a Latin American government with unneeded military equipment unless it was really essential from the point of view of U.S. political interests. In point of fact, we could do anything on this basis. The President did recommend that the adjective "political" be deleted, but on a plea by Secretary Hoover agreed to the retention of this wording.

At this point, Admiral Radford repeated his plea for NSC 5613. In essence, he said, the present policy statement continues U.S. military policies toward the other American republics which have been in force over a period of many years. If these policies were now suddenly changed, the repercussions would be very serious. Mr. Jackson suggested that this paragraph likewise be referred for revision to the NSC Planning Board, along with paragraph 32. Secretary Dulles, however, stated his belief that paragraph 34–a should stand as written. With this position the President expressed his agreement.

Mr. Jackson then went on to deal with paragraph 34–b, on page 15 of NSC 5613, reading as follows:

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[8] Brackets in the source text.

"In order to be in a position effectively to supply military equipment on a reimbursable basis in accordance with this and the foregoing paragraph:

"(1) Offer to Latin American governments military equipment at competitive prices.

"(2) Make sales of military equipment to Latin American governments on credit."

Mr. Jackson also pointed out the proposal of the Joint Chiefs of Staff to introduce into this subparagraph language supporting the effort to reach ultimate standardization of Latin American military equipment along U.S. lines. Secretary Hoover warned the Council that the term "standardization" carried with it the implication that the United States must also be responsible for the modernization of the equipment. In such matters as the provision of jet aircraft, such an obligation to modernize Latin American military units could prove very costly, and the Council should examine the problem carefully before agreeing to include the language proposed by the Joint Chiefs of Staff.

In reply, Admiral Radford pointed out that if any Latin American state actually bought any considerable amount of military material from a European country, history proved that the ultimate result was generally the establishment in the Latin American country of a military mission from the country that supplied the material. This had been very serious before the outbreak of World War II, and it was clearly in our national interest to prevent such broad contacts between Latin American countries and European countries. Our motives in this instance were certainly just as much political as they were military.

Mr. Jackson suggested that this paragraph likewise be returned to the Planning Board for review, along with the other military paragraphs of NSC 5613. He then went on to the final split in the paper, which came in paragraph 45, on page 17. Paragraph 45 as originally written read as follows:

"Study the feasibility of encouraging the use of the Latin American military personnel for a constructive role in economic development projects."

Mr. Jackson said that the Defense Department and the Joint Chiefs of Staff proposed that this paragraph be deleted, on grounds that to encourage the use of military personnel on economic development projects would only subordinate the accepted military purposes of such forces. Admiral Radford warned that if this paragraph remained in NSC 5613 the result would be to increase the size of our military assistance programs to the Latin American states. The President added that it would certainly increase the already undesirable mili-

tary influence on the civilian governments of the other American republics.

Mr. Hollister pointed out that the proposed course of action was actually working very well in certain countries of Latin America, such as Bolivia. He also pointed out that the paragraph did not direct the use of Latin American military personnel in economic development projects; it merely called for a study of the feasibility of such use. He added that the United States could probably save money if such a use of Latin American military personnel were found to be feasible. Secretary Hoover said that the State Department strongly supported the policy stated in paragraph 45.

The President said he felt this way: He had been struck, at the Panama Conference of the Heads of Governments of the American States,[9] that only two or three of the leaders of the Latin American Republics wanted to be called by other than some military title. Moreover, their chests were hung with a great variety of military medals, which were probably struck for their own purposes. In short, the President certainly did not wish to do anything, he said, which would encourage any further dependence on the military element in these countries. He was still a strong believer in civilian control of governments. He believed that the paragraph should stay, but suggested that the word "advisability" should be substituted for "feasibility".

Admiral Radford repeated his warning that if this paragraph remained in the policy statement the United States would get a lot of new requests from the Latin American states for additional military assistance. Secretary Humphrey commented that Admiral Radford's warning emphasized his own fear that the United States would now proceed to develop great new programs of assistance to Latin America. The President, however, repeated his earlier suggestion that, in dealing with the military paragraphs of NSC 5613, the revised policy statement should set forth the desirable level of military forces in the Latin American Republics and the missions of these forces which clearly served the security interests of the United States. If for other than military reasons the missions of the Latin American armed forces should be further extended, the paper should recognize that this confronted us with a special problem to be dealt with on a case-by-case basis.

The National Security Council:

a. Discussed the draft statement of policy on the subject contained in NSC 5613, prepared by the NSC Planning Board pursuant

[9] Reference is to the meeting of the Presidents of the American Republics, held at Panamá, July 21–22; see Documents 109 ff.

to NSC Action No. 1548; in the light of the comments of the Council on Foreign Economic Policy transmitted by the reference memorandum of August 31, and of the views of the Joint Chiefs of Staff transmitted by the reference memorandum of September 5.

b. Adopted the statement of policy in NSC 5613, subject to the following amendments:

(1) *Page 9, paragraph 16–e:* Revise the second sentence to read as follows: "If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to diminish governmental economic and financial cooperation with that country and to take any other political, economic or military actions deemed appropriate."

(2) *Page 10, paragraph 21:* Delete the bracketed language and the footnote relating thereto; and insert in the second sentence, after "inter-American trade", the words "in accordance with the most-favored-nation principle".

(3) *Page 11, paragraph 22:* Revise the first two lines to read as follows: "Be prepared to encourage, through the Export-Import Bank, the financing of sound economic governmental development projects or private commercial projects,"; and delete the asterisk and the footnote relating thereto.

(4) *Page 7, paragraph 14; page 14, paragraph 32; page 15, paragraph 34–b; and page 16, paragraph 35:*

To be revised by the NSC Planning Board in the light of the discussion at the meeting.

(5) *Page 15, paragraph 34–a:* Include the bracketed sentence; and delete the brackets and the footnote relating thereto.

(6) *Page 17, paragraph 45:* Change "feasibility" to "advisability"; and delete the brackets and the footnote relating thereto.

Note: The action in b. above, as approved by the President, referred to the NSC Planning Board to prepare for Council consideration the revisions referred to in b–(4).

[Here follows discussion of item 3, "U.S. Policy Toward East Germany".]

S. Everett Gleason

14. Memorandum From the Acting Executive Secretary of the National Security Council (Gleason) to the National Security Council[1]

Washington, September 14, 1956.

SUBJECT

U.S. Policy Toward Latin America

REFERENCES

A. NSC 5613
B. NSC Action No. 1601–b–(4)

The enclosed draft revision of paragraphs 14, 32, 34–b and 35 of NSC 5613, prepared by the NSC Planning Board pursuant to NSC Action No. 1601–b–(4), is transmitted herewith for consideration by the National Security Council at its meeting on Thursday, September 20, 1956.

The enclosed draft includes, also for consideration by the Council at its meeting on September 20, a draft revision of paragraphs 22 and 34–a of NSC 5613, prepared and recommended by the NSC Planning Board.

S. Everett Gleason

[Enclosure]

LATIN AMERICA

Draft Revision of Paragraphs 14, 22, 32, 34 and 35 of NSC 5613[2]

14. In addition to being a source of vital strategic resources, Latin America provides bases important to our security. Accordingly, we should be prepared to provide military equipment and training to the Latin American states to assist them to maintain internal security and to defend coastal waters, ports, bases and strategic areas and installations within their own borders and communication routes associated therewith, when this will contribute to the defense of the hemisphere. In exceptional cases, political or hemispheric defense considerations may make it in the interests of national security for the United States to provide military equipment and training to

[1] Source: Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5613—Memoranda. Secret.

[2] Inserts containing the text of these paragraphs as they appeared in NSC 5613 are not printed as part of this memorandum.

certain Latin American states over and above that needed to assist them to discharge the normal military missions described above.

22. Be prepared to encourage, through the Export-Import Bank, the financing of all sound economic governmental development projects or private commercial projects, for which private capital is not readily available, provided each loan is (a) in the best interests of both the United States and the borrowing country; (b) within the borrower's capacity to repay; (c) within the Bank's lending capacity and charter powers; and (d) sought to finance U.S. goods and services.

32. a. Encourage acceptance of the concept that each of the Latin American states is responsible for its own internal security and for providing, through effective military and mobilization measures, a contribution to the defense of the hemisphere by the defense of its coastal waters, ports and approaches thereto, bases, strategic areas and installations located within its own territory, and routes of communication associated therewith.

b. In exceptional cases, be prepared to accept participation by a Latin American state in combined operations in support of U.S. military responsibility under paragraph 31 above, where its location and resources make such participation feasible, and where political or hemisphere defense considerations make such a course of action in the interests of the security of the United States.

34. a. Recognizing that Latin American requests for military equipment are requirements against limited MDAP funds and supplies of U.S. military equipment; that their purchases of military equipment, especially on credit, have an adverse effect on their borrowing capacity and our ability to make loans to them for economic development purposes; that the denial of their requests has disadvantages for the United States; and that in certain instances the military elements in Latin America exercise a disproportionate influence on the governments; discourage Latin American governments from purchasing military equipment not essential to the missions in paragraph 32. Notwithstanding the foregoing, if a Latin American government cannot be dissuaded from purchasing unneeded military equipment, and if it is essential for U.S. political interests, make additional equipment available on a cash, credit, or, under extraordinary circumstances, grant basis, if appropriate.

b. In order to be in a position effectively to supply military equipment on a reimbursable basis in accordance with this and the foregoing paragraph:

(1) Offer to Latin American governments military equipment at competitive prices and under competitive delivery dates.

(2) Make sales of military equipment to Latin American governments on credit, which should normally be limited to three years.

35. Except when it will create undue demand on the United States for modernization, replacement, spare parts, and ammunition; seek, in the interests of standardization as well as for other reasons, to discourage purchases by Latin American governments of military equipment from other Free World countries, primarily by assuring the Latin American countries that we will endeavor to fill their essential requirements on reasonable terms. Wherever feasible consistent with the above, seek to prevent other Free World countries from selling military equipment to Latin American states.

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15. Memorandum of Discussion at the 297th Meeting of the National Security Council, Washington, September 20, 1956[1]

Present at the 297th meeting of the Council were the President of the United States, presiding; the Acting Secretary of State; the Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General; the Secretary of Commerce (for Items 3 and 4); the Special Assistant to the President for Disarmament; the Director, Bureau of the Budget; the Director, International Cooperation Administration; the Director, U.S. Information Agency; the Chairman, Interdepartmental Intelligence Conference; the Chairman, Interdepartmental Committee on Internal Security; the Chairman, Joint Chiefs of Staff; the Acting Director of Central Intelligence; the Assistant to the President; William H. Jackson, Special Assistant to the President; the White House Staff Secretary; the NSC Representative on Internal Security; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1 and 2, "Preventing Entry into the United States of Radioactive Materials Through Diplomatic Shipments", and "Significant World Developments Affecting U.S. Security".]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason.

3. U.S. Policy Toward Latin America (NSC 5432/1; NSC Action No. 1548; NSC 5613; NSC Action No. 1601; Memo for NSC from Acting Executive Secretary, same subject, dated September 14, 1956[2])

Mr. Jackson reminded the Council that pursuant to action on NSC 5613 at the last Council meeting, the Planning Board had revised certain paragraphs of NSC 5613. He said that he would briefly explain the nature of the revision made in each paragraph. He first dealt with the changes made in Paragraphs 14 and 32 which, without discussion, were accepted by the National Security Council.

With respect to Paragraph 22, Secretary Weeks said that he had not been present when the Council considered NSC 5613 at its earlier meeting and did not wish to reopen questions that had been settled at that meeting. Nevertheless, he still believed that it was desirable that Paragraph 22 contain a statement that we would not provide loans for Latin American developmental projects in cases where discriminatory practices by the borrowing government were responsible for the unavailability of private capital.

The President commented that he thought that the point made by Secretary Weeks had now been covered in Paragraph 22 as that paragraph had been revised. After all, one of the conditions for the grant of loans to Latin American countries was the condition that such a loan was in the best interests of both the United States and the borrowing country. If discriminatory practices against private capital existed in the borrowing country, it would not be in the best interests of the United States to make the loan. Secretary Humphrey expressed agreement with the President's view that as rewritten Paragraph 22 was satisfactory.

Mr. Jackson then went on to explain the changes recommended by the Planning Board in Paragraphs 34–a and 35–b which were accepted by the Council without discussion.

Finally, Mr. Jackson explained that Paragraph 35 had been revised by the Planning Board to meet the point made by the President at the earlier Council meeting that while standardization of weapons was a desirable goal, the United States should be aware of the dangers of creating an undue demand on the United States for modernization, replacement, spare parts, and ammunition.

The President pointed out that the thing we had to watch was the possibility of quarrels breaking out in so many corners of the world. It is our policy to keep these quarrels from breaking out and of course if one of these states threatens to purchase military equipment from some other nation, they feel they are in a position

[2] *Supra.*

to blackmail us into providing the equipment they desire. Accordingly, the President believed that the desk man in the State Department should keep a very careful watch over such developments and lead these boys in Latin America along the path which will avoid quarrels among them. Secretary Wilson expressed agreement with the President that the more successful we are in keeping these states "cooled off", the better we would be. Secretary Hoover pointed out that carrying out this policy would require the closest cooperation among the Defense Department agencies, the State Department, and the CIA.

In conclusion the President reminded the Council of what great anxiety we had experienced at the beginning of World War II because of the large amount of German military equipment and aircraft which had been sent to Latin American states near the Panama Canal. This was still something to watch over.

The National Security Council:

Adopted the draft revisions of Paragraphs 14, 32, 34–b, and 35 of NSC 5613 prepared by the NSC Planning Board, pursuant to NSC Action No. 1601–b(4), and the draft revisions by the Planning Board of Paragraphs 22 and 34–a of NSC 5613 transmitted by the reference memorandum of September 14.

Note: NSC 5613 as amended by NSC Action No. 1601–b and further amended by the above action, subsequently approved by the President, circulated as NSC 5613/1 for implementation by all appropriate Executive departments and agencies of the U.S. Government, and referred to the Operations Coordinating Board as the coordinating agency designated by the President.

[Here follows discussion of items 4 and 5, "United States Policy Toward Yugoslavia", and "U.S. Objectives and Courses of Action in Korea".]

S. Everett Gleason

16. National Security Council Report[1]

NSC 5613/1 *Washington, September 25, 1956.*

STATEMENT OF POLICY ON U.S. POLICY TOWARD LATIN AMERICA

General Considerations

1. The United States has close and friendly political relations with the Latin American countries and generally receives support from them for U.S. world policies. These close and friendly relations are promoted by the Organization of American States.

2. Trade relations with the other American Republics ($7 billion annually), in most recent years, have been more extensive than with any other area of the world. Private U.S. investment in Latin America ($7 billion) is larger than in any other area except Canada. With their rapid rate of population increase and economic growth, the other American Republics have achieved an increased weight internationally in both economic and political affairs.

3. The governments of the other American Republics frequently are subject to change by military coup d'état. In almost all of the Republics the military has a strong, often a decisive influence. Approximately half of the governments are now run by military officers, who originally assumed power by revolution.

4. There are strong nationalistic feelings in all of these Republics which often are expressed as anti-Americanism. In some countries, this nationalism expresses itself strongly against proposals for the development of natural resources, especially petroleum, by U.S. private capital. While many of these Republics are unwilling to adopt laws and policies which will create a climate favorable for the development of their countries by private capital, both domestic and foreign, there is an intense desire for rapid economic progress and higher standards of living. Because the national income of the United States is roughly 8 or 9 times that of the other American Republics combined, Latin America looks to us for assistance and expects that it should be forthcoming.

5. We have a long record of cooperation with these Republics in the development of their economies. However, some sectors in Latin America complain that our assistance is inadequate. Factors motivat-

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[1] Source: Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5613 Series. Secret. A covering title sheet, a transmittal note by Lay, dated September 25, and a table of contents are not printed. NSC 5613/1 was approved by President Eisenhower on September 25, thereby superseding NSC 5432/1, and transmitted to all American missions in Latin America in Department instruction CA–3421, dated October 19. (*Ibid.*, Central Files, 611.20/10–1956)

ing these sectors include political pressure for more rapid economic development, domestic political considerations, and the feeling that any given level of U.S. aid can be increased through complaints. These complaints are often reflected in the argument that the United States accords to Latin America an inadequate proportion of its total foreign aid. The annual increase in Latin America's gross national product since the last war has been on the order of 5.5% as compared to 5% in Western Europe and 4% in the United States. This is partially offset by the rapid growth of population in Latin America, averaging over two percent annually.

6. There is no danger of overt Communist attack against any Latin American country except in the context of general war. Communists have no present prospect of gaining control of any Latin American state by electoral means. They do, however, have the capacity to achieve direct participation in national politics and the governments of some countries, though not equal to that which they formerly enjoyed in Guatemala. Moreover, the Soviet bloc is seeking broader trade and economic and cultural relations with Latin American countries not only for economic reasons but in order to disrupt our friendly relations with Latin America, to subvert the countries in the area, and to destroy the inter-American system. Generous and vigorous implementation of U.S. policies in the area is essential if the Soviet effort is to be frustrated. The USSR seeks to distort our close relations with the other American Republics by accusing the United States of dominating and subjugating Latin America and by accusing the Latin Americans of being subservient to the United States. The Soviet Union is supported in these charges by highly vocal local Communist and other anti-U.S. elements. On occasion Latin American governments seek to emphasize their independence by taking positions at odds with ours and sometimes detrimental to our interests.

7. The foundation of our military relations with Latin America is the Rio Treaty. In planning its own defense, the United States must take account of Latin America in view of its geographic proximity and our dependence on Latin American resources. Our military cooperation with Latin America is especially valuable because of the unique position the military occupies in Latin American politics. We have a highly developed pattern of military relations with Latin America, including the Inter-American Defense Board, joint military commissions, attachés, missions, military assistance agreements and bases and base rights. Many Latin American states seek to obtain military equipment beyond militarily justifiable requirements (a) to enhance their prestige, (b) as a result of inter-American rivalries, or (c) to strengthen the position of military groups in internal affairs. The Latin American countries continue to

acquire and use substantial quantities of European military equipment. Their purchase of the major share of their military equipment in Europe, even when confined to non-communist sources, adversely affects U.S. influence in Latin America, and results in a varied assortment of equipment for which it would be difficult to obtain spare parts in time of war.

Policy Conclusions

8. It is essential that we strengthen our close political ties with the other American Republics and keep them associated with us in support of our world policies. The Organization of American States, with its subsidiary organizations, is one of the primary instruments through which we can accomplish this end, at the same time avoiding any appearance of unilateral action or intervention.

9. Close economic relations with Latin America are a valuable asset to the United States and will become even more important as the economies of these Republics are further developed. Accordingly, it is important to preserve and improve the trade and investment relations between the United States and the Latin American nations.

10. The desire for more rapid economic progress and higher standards of living is a major political issue in Latin America. The maintenance of friendly relations with Latin America requires us to assist the other American Republics in carrying forward their constructive economic development programs and to become associated in Latin American thinking as a partner in economic progress. The United States should promote the development by private initiative of sturdy, self-reliant economies in Latin America which do not require continuing grant assistance from the United States.

11. Closer relations between the Soviet Union and Latin America are against the security interest of the United States. Some Latin Americans may respond favorably to some of the Soviet bloc offers, especially for expanded trade, or attempt to use the threat to accept Soviet offers as a weapon to obtain increased U.S. assistance. The Soviet overtures only serve to emphasize the urgency and necessity of carrying out U.S. policies vigorously, especially loan and trade policies, in order to demonstrate the benefits to be derived from a free private enterprise system and from close relations with the United States. We should be prepared, however, to take action appropriate to the occasion if a Latin American state establishes close economic or other ties with the Soviet bloc.

12. The unique political position of military groups in Latin America makes it important to the United States to maintain influence with these groups. A major factor in the maintenance of this influence with the military is U.S. ability to provide military training and equipment for their forces on a cash, credit or grant basis if

necessary. In some cases it is in the U.S. interest to provide such equipment primarily for political reasons.

13. The purchases and maintenance of non-essential military equipment by Latin American states generally reduce their capability to improve domestic living standards and to borrow abroad. It is, therefore, important for the United States to attempt to dissuade these countries from purchasing from any source military equipment not essential for military purposes.

14. In addition to being a source of vital strategic resources, Latin America provides bases important to our security. Accordingly, we should be prepared to provide military equipment and training to the Latin American states to assist them to maintain internal security and to defend coastal' waters, ports, bases and strategic areas and installations within their own borders and communication routes associated therewith, when this will contribute to the defense of the hemisphere. In exceptional cases, political or hemispheric defense considerations may make it in the interests of national security for the United States to provide military equipment and training to certain Latin American states over and above that needed to assist them to discharge the normal military missions described above.

Objectives

15. a. Keep the other American Republics friendly toward the United States and retain their support of our world policies.

b. Encourage the development of stable political systems along democratic, representative lines.

c. Encourage the growth of sturdy, self-reliant economies based upon the free enterprise system.

d. Reduce and eventually eliminate Soviet bloc and Communist influence in the area.

e. Obtain adequate production of and access to materials essential to our security.

f. Obtain the participation in and support of measures to defend the hemisphere.

General Courses of Action

Political

16. Achieve a greater degree of hemispheric solidarity by:

a. Strongly supporting and strengthening the Organization of American States to make it a model of relationships among free nations, utilizing it wherever feasible to achieve our objectives, and promoting increased financial support on a proportional basis.

b. Consulting with the Latin American states, whenever possible, before taking actions which will affect them or for which we wish their support.

c. Giving special emphasis to the maintenance of a spirit of partnership and equality, promoting close personal relations with Latin American leaders and encouraging reciprocal visits by high Government officials and distinguished private citizens.

d. Refraining from overt unilateral intervention in the affairs of the other American Republics, without prejudice to multilateral action through the inter-American system, ...

e. Taking into consideration, in determining the extent of U.S. assistance and support to particular American states, their willingness and ability to cooperate with us in achieving common objectives. If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to diminish governmental economic and financial cooperation with that country and to take any other political, economic or military actions deemed appropriate.

f. Assisting American states which are resisting pressures from their neighbors, whenever such pressures are inimical to U.S. interests and the inter-American system.

17. a. Encourage, through consultation, prudent exchange of information and other available means, individual and collective action against expansion of Soviet bloc influence or Communist or other anti-U.S. subversion or intervention in any American state.

b. In the event of threatened or actual domination of any American state by Communism, promote and cooperate through the OAS in the application of measures available under the Rio Treaty (including military) to the extent necessary to remove the threat to the security of the hemisphere, taking unilateral action only as a last resort.

18. a. Encourage acceptance and implementation by interested states of the principle that dependent and colonial peoples in this hemisphere should progress by orderly processes toward a self-governing status. Toward this end, we should continue our technical cooperation programs in these areas.

b. When disputes between American and non-American states over dependent territories cannot be settled by direct negotiations, encourage peaceful settlements by other methods available to the parties.

19. Assist and encourage programs designed to develop a social consciousness and responsibility on the part of management and labor, the improvement of labor-management relations, and the continued growth of democratic, responsible trade unions.

20. Enlist the support of Latin American governments to prevent direct and indirect shipments of strategic materials to the Soviet bloc.

Economic

21. Maintain stable, long-term trading policies with respect to Latin America designed to expand existing levels of inter-American commerce. In order to achieve a high level of inter-American trade in accordance with the most-favored-nation principle, (a) press strongly for reciprocal reductions of barriers to such trade and (b) take the lead by reducing further our own trade restrictions over the next few years, with due regard to national security and total national advantage.

22. Be prepared to encourage, through the Export-Import Bank, the financing of all sound economic governmental development projects or private commercial projects, for which private capital is not readily available provided each loan is (a) in the best[2] interests of both the United States and the borrowing country; (b) within the borrower's capacity to repay; (c) within the Bank's lending capacity and charter powers; and (d) sought to finance U.S. goods and services.

23. Support applications for sound development loans which are submitted to the IBRD.

24. Only if actions under paragraphs 21, 22 and 23 are inadequate, and then only with the approval of the President or his designee in each case, make soft dollar loans or provide grant economic assistance to meet conditions of temporary emergency affecting U.S. interests which the local government cannot solve with resources at its command. Encourage the beneficiaries of such programs to relinquish U.S. aid and to become self-reliant as soon as it is practical to do so. Notwithstanding the foregoing, continue our aid to the Inter-American Highway and the Rama Road, and encourage the use for economic development purposes in the purchasing countries of the local currency proceeds obtained through the sale of surplus agricultural commodities.

25. Strengthen and program, on a longer term basis, technical cooperation; provided, always, that each country has a genuine interest in and desire for our participation in programs undertaken by them, and that our participation makes a contribution toward the achievement of our foreign policy objectives commensurate with its cost. Within these policy limits, increase specialized training of Latin Americans in the United States and third countries.

26. While recognizing the sovereign right of Latin American states to undertake such economic measures as they may conclude are best adapted to their own conditions, encourage them by eco-

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[2] On September 27, a typographical omission of the word "best" was corrected. (Memorandum from Lay, September 27, *ibid.*; S/S–NSC Files: Lot 63 D 351, NSC 5613/1—Memoranda)

nomic assistance and other means to base their economics on a system of private enterprise, and, as essential thereto, to create a political and economic climate conducive to private investment, of both domestic and foreign capital, including:

a. Reasonable and non-discriminatory laws and regulations affecting business.

b. Opportunity to earn and, in the case of foreign capital, to repatriate a reasonable return.

c. Reasonable rate-making policies in government-regulated enterprises.

d. Sound fiscal and monetary policies.

e. Respect for contract and property rights, including assurance of prompt, adequate and effective compensation in the event of expropriation.

27. In carrying out programs involving disposal of U.S. agricultural surpluses abroad:

a. Give particular attention to the economic vulnerabilities of the Latin American countries and avoid, to the maximum extent practicable, detracting from the ability of these countries to market their own exportable produce.

b. Give particular emphasis to the use of these resources to promote multilateral trade and economic development.

28. Where appropriate, encourage diversification of Latin American economics on a sound basis.

Information and Related Activities

29. Expand and make more effective information, cultural, education and exchange-of-persons programs, with particular emphasis on aid to American schools abroad, bi-national cultural centers, and exchange-of-persons programs, stimulating private groups to undertake appropriate projects.

30. . . .

Military

31. Assume primary responsibility for hemispheric military operations in the Atlantic and Pacific Oceans and the Caribbean Sea, including the sea and air approaches to the Panama Canal, and seek from the states concerned acceptance of U.S. military control of the defense of these sea areas.

32. a. Encourage acceptance of the concept that each of the Latin American states is responsible for its own internal security and for providing, through effective military and mobilization measures, a contribution to the defense of the hemisphere by the defense of its coastal waters, ports and approaches thereto, bases, strategic areas

and installations located within its own territory, and routes of communication associated therewith.

b. In exceptional cases, be prepared to accept participation by a Latin American state in combined operations in support of U.S. military responsibility under paragraph 31 above, where its location and resources make such participation feasible, and where political or hemisphere defense considerations make such a course of action in the interests of the security of the United States.

33. Make available to Latin American states, on a grant basis if necessary, the minimum military equipment necessary to assist them to carry out the limited missions in the foregoing paragraph.

34. a. Recognizing that Latin American requests for military equipment are requirements against limited MDAP funds and supplies of U.S. military equipment; that their purchases of military equipment, especially on credit, have an adverse effect on their borrowing capacity and our ability to make loans to them for economic development purposes; that the denial of their requests has disadvantages for the United States; and that in certain instances the military elements in Latin America exercise a disproportionate influence on the governments; discourage Latin American governments from purchasing military equipment not essential to the missions in paragraph 32. Notwithstanding the foregoing, if a Latin American government cannot be dissuaded from purchasing unneeded military equipment, and if it is essential for U.S. political interests, make additional equipment available on a cash, credit, or, under extraordinary circumstances, grant basis, if appropriate.

b. In order to be in a position effectively to supply military equipment on a reimbursable basis in accordance with this and the foregoing paragraph:

(1) Offer to Latin American governments military equipment at competitive prices and under competitive delivery dates.

(2) Make sales of military equipment to Latin American governments on credit, which should normally be limited to three years.

35. Except when it will create undue demand on the United States for modernization, replacement, spare parts, and ammunition; seek, in the interests of standardization as well as for other reasons, to discourage purchases by Latin American governments of military equipment from other Free World countries, primarily by assuring the Latin American countries that we will endeavor to fill their essential requirements on reasonable terms. Wherever feasible consistent with the above, seek to prevent other Free World countries from selling military equipment to Latin American states.

36. Seek to develop a conviction that collaboration, including military purchases, by any of the American states with Communist

nations would be a serious hazard to all of the nations of this hemisphere.

37. Proceed vigorously with the implementation of the program for strengthening the local police, constabulary and related forces necessary to maintain internal security and to destroy the effectiveness of the communist apparatus in the Western Hemisphere in countries found to be vulnerable to Communist subversion.

38. If participation of Latin American military units is required in future extra-continental defense actions, provide logistical support, if necessary without reimbursement, to such forces.

39. . . .

40. Seek the continued cooperation of the Latin American states in carrying out the hemisphere mapping program.

41. Continue our active participation in the Joint Military Commissions we have with Brazil and Mexico, and make effective use of the IADB to achieve our military objectives.

42. Foster closer military relations with the Latin American armed forces in order to increase their understanding of, and orientation toward, U.S. objectives and policies.

43. Continue, and establish where appropriate, military training missions in Latin American states, countering any trend toward the establishment of military missions, or agencies or individuals with a similar function, other than those of the American Republics.

44. Provide adequate quotas for qualified personnel for training in U.S. armed forces schools and training centers; encourage Latin American states to fill their authorized quotas at the three Service Academies.

45. Study the advisability of encouraging the use of the Latin American military personnel for a constructive role in economic development projects.

46. Encourage, to the maximum extent consistent with the needs and capabilities of each Latin American nation, the standardization along U.S. lines of military doctrine, unit organization and training.

Financial Appendix

Cost estimates in the Financial Appendix indicate order of magnitude.

Approval of the policy statement does not indicate approval of cost estimates in the Financial Appendix.

Appropriations and expenditures to finance the policy will be subject to determination in the regular budgetary process.

Special Notes

All estimates are subject to the assumptions, footnotes, and summary explanation shown below in this Financial Appendix.

Estimated Cost of the Proposed Policies

Table I

Expenditures by Programs

FY 1954–FY 1959

(Millions of Dollars)

	Actual		Estimated				
	1954	1955	1956	1957	1958	1959	TOTAL 1956–59
Military Assistance[3]	40.1	41.0	25.2	27.0[4]	44.0[4]	35.0[4]	131.2
Defense Support	2.1	6.7	28.0	34.0[5]	28.0	15.0	105.0
Technical Cooperation	16.4	18.6	27.3	30.0	33.0	36.0	126.3
Organization of American States	3.6	3.6	3.9	4.3	4.6	5.4	18.2
OAS Technical Cooperation	.9	1.0	1.2	1.3	1.4	1.5	5.4
Inter-American Highway[6]	2.7	2.4	4.9	30.0	30.0	16.0	80.9
Rama Road	—	.4	2.0	2.0	1.0	—	5.0
Information Services	5.1	5.5	6.2	8.5	13.0	15.0	42.7
Educational Exchange	.9	1.6	1.5	1.8	5.0	10.0	18.3
TOTALS	71.8	80.8	100.2	138.9	160.0	133.9	533.0
Reimbursable Aid[7]	8.3	12.6	7.2	10.0	30.0	30.0	77.2

[3] Value of matériel shipments (including the value of "excess stocks" net of repair and rehabilitation), plus expenditures for training, packing, handling, crating and transportation. There is no direct forces support for Latin America. [Footnote in the source text.]

[4] Detail by country not available. [Footnote in the source text.]

[5] This does not include expenditures from the $15 million made available by the Smathers Amendment to the Mutual Security Act of 1956, almost all of which will be used for loans. [Footnote in the source text.]

[6] This is funded in the budget of the Bureau of Public Roads of the Department of Commerce. [Footnote in the source text.]

[7] The total paid for equipment and material obtained under reimbursable aid through FY 1956 has amounted to approximately $55 million, which had an original or replacement cost, as applicable, of about $194 million. The latter amount includes $154 million of excess stocks which was paid for at approximately 10 percent of value. [Footnote in the source text.]

BREAKDOWN OF MILITARY ASSISTANCE BY COUNTRY

(Millions of Dollars)

	Actual Expenditures		Estimated Expenditures
	1954	1955	1956
Argentina			
Military Assistance	—	—	—
Reimbursable Aid	.2	.8	.6
Bolivia			
Military Assistance	—	—	—
Reimbursable Aid[8]	—	—	—
Brazil			
Military Assistance	22.6	14.8	8.7
Reimbursable Aid	.4	.5	.5
Chile			
Military Assistance	6.8	6.7	2.2
Reimbursable Aid	.9	.7	—
Colombia			
Military Assistance	2.4	5.9	2.2
Reimbursable Aid	.9	1.5	.3
Costa Rica			
Military Assistance	—	—	—
Reimbursable Aid	—	.7	.1
Cuba			
Military Assistance	1.1	1.6	1.6
Reimbursable Aid	.3	.6	.3
Dominican Republic			
Military Assistance	[9]	2.2	1.0
Reimbursable Aid	.1	.1	[9]
Ecuador			
Military Assistance	2.2	2.0	2.2
Reimbursable Aid	.3	.8	[9]
El Salvador			
Military Assistance	—	—	—
Reimbursable Aid	—	.1	.4
Guatemala			
Military Assistance	—	—	.5
Reimbursable Aid	—	.2	.4
Haiti			
Military Assistance	—	—	.9
Reimbursable Aid	—	—	[9]
Honduras			
Military Assistance	.2	.2	.1
Reimbursable Aid	.3	—	.2
Mexico			
Military Assistance	—	—	—
Reimbursable Aid[8]	—	—	—

[8] Program delivered prior to FY 1954. [Footnote in the source text.]
[9] Less than $50,000. [Footnote in the source text.]

	Actual Expenditures		Estimated Expenditures
	1954	1955	1956
Nicaragua			
Military Assistance	.2	.3	.1
Reimbursable Aid	[9]	1.2	.3
Panama			
Military Assistance	—	—	—
Reimbursable Aid	—	—	[9]
Paraguay			
Military Assistance	—	—	—
Reimbursable Aid	—	—	[9]
Peru			
Military Assistance	4.2	5.7	2.6
Reimbursable Aid	1.7	4.7	1.5
Uruguay			
Military Assistance	.4	1.6	3.1
Reimbursable Aid	.1	.2	—
Venezuela			
Military Assistance	—	—	—
Reimbursable Aid	3.1	.5	2.6

TABLE II

Availability of Funds in Relation to Expenditures

FY 1957–FY 1959

(Millions of Dollars)

	Military Assistance[10] Total[11]
Unexpended carryover into FY 1957	43
Plus: FY 1957 funds	26
Equals: Total available for expenditure FY 1957	69
Less: Estimated expenditures FY 1957	27
Equals: Unexpended carryover into FY 1958	42
Plus: FY 1958 funds[12]	36
Equals: Total available for expenditure FY 1958	78
Less: Estimated expenditures FY 1958	44
Equals: Unexpended carryover into FY 1959	34

[10] Value of matériel shipments (including the value of "excess stocks" net of repair and rehabilitation), plus expenditures for training, packing, handling, crating and transportation. [Footnote in the source text.]

[11] Detail by country not available. [Footnote in the source text.]

[12] Based on total new obligational authority of $3.2 billion for FY 1958 military assistance program. However, the total of NOA to be requested from Congress in FY 1958 has not yet been determined. [Footnote in the source text.]

I. Military Assistance

(Prepared by the Department of Defense)

Grant Aid Program

The grant aid program for Latin America countries, the expenditures for which are shown in Table I captioned Military Assistance, is designed to help those countries to improve their capabilities for effectively carrying out military missions important to the defense of the hemisphere and to promote closer military cooperation between those countries and the United States. It also provides equipment and training for internal security to meet a bona fide communist threat.

Twelve Latin American countries are included in the grant aid program. Table I lists these countries and indicates the amount of grant aid they received during FY 1954 and FY 1955 plus an estimate of the amount that was delivered during FY 1956. No projection of deliveries is included by country, however a projection has been made of total grant aid deliveries anticipated for Latin America through FY 1959.

The force bases supported by the military assistance program are listed in Annex I to this report. Most of the initial equipment for these forces has been supplied, however, some small units remain to be furnished out of FY 1957 appropriations. The remainder of the military assistance being furnished provides spare parts for existing equipment, training ammunition and replacement equipment for normal attrition. The projected increase in expenditures in FY 1958 is in anticipation of a modernization of the Air Force units with jet aircraft.

Reimbursable Aid Program

Twenty Latin American countries have received reimbursable military assistance as shown in Table I. Total purchases of equipment and matériel made by these countries through FY 1956 amount to approximately $35 million. This equipment had an original cost to the United States of $194 million inclusive of excess stocks which made up $154 million of the program and which was sold to these countries at approximately 10 percent of original cost. In addition, the government of Peru was granted a loan of $15 million under the provisions of Section 105 of the Mutual Security Act to enable it to purchase commercially two submarines to be used in connection with its contribution to the defense of the Western Hemisphere. Credits or loans authorized under the Mutual Security Act of 1954 have been extended to ten Latin American countries (Brazil, Chile,

Cuba, Dominican Republic, Ecuador, Guatemala, Peru, Paraguay, Uruguay and Venezuela) and seven of these countries have made purchases under these agreements. Of the remaining three Ecuador and Paraguay are in process of consummating a purchase and Dominican Republic has expressed no further interest in a purchase.

Tentative Force Bases for FY 1957 for Planning Purposes: Latin America

The MDAP objective in the Latin American area is to provide military assistance in the form of equipment and training essential to the continued and increased effectiveness of those forces necessary for hemispheric defense tasks as enumerated in "U.S. Military Policy for Latin America", and as a result thereof to encourage the political stability and orientation of the recipient nations toward the United States.

Tentative Major Combat Force Bases

a. *Brazil*

(1) *Army*

1 RCT
4 AAA Battalions
1 Abn BCT

(2) *Navy*

2 Cruisers (CL)
11 Destroyers (DD/DE)
13 Patrol Craft (DE/PC/PF)
2 Mine Craft
2 Submarines (SS)

(3) *Air Force*

3 Fighter Bomber Squadrons (UE 25 A/C)
2 Light Bomber Squadrons (UE 16 A/C)
2 Reconnaissance Squadrons (UE 12 A/C)
1 Transport Squadron (UE 12 A/C)

b. *Chile*

(1) *Army*

1 Reconnaissance Squadron, Mechanized

(2) *Navy*

2 Light Cruisers (CL)
12 Patrol Craft (PF/PCE/ODD)

(3) *Air Force*

1 Fighter Bomber Squadron (UE 25 A/C)
2 Light Bomber Squadrons (UE 16 A/C)

c. *Colombia*

(1) *Army*

1 Infantry Battalion
1 AAA (AW) Battalion

(2) *Navy*

2 Destroyers (DD)
2 Destroyers (DD/DE)
2 Patrol Escorts (PF)

(3) *Air Force*

1 Fighter Bomber Squadron (UE 25 A/C)
1 Light Bomber Squadron (UE 16 A/C)

d. *Cuba*

(1) *Army*

1 Infantry Battalion

(2) *Navy*

5 Patrol Craft (DE/PF)
1 Patrol Reconnaissance A/CS

(3) *Air Force*

1 Transport Squadron (UE 16 A/C)
1 Light Bomber Squadron (UE 16 A/C)
1 Fighter Bomber Squadron (UE 25 A/C)

e. *Dominican Republic*

(1) *Navy*

2 Destroyers (DD)
8 Patrol Craft (PF/PCE/PC/SC)

(2) *Air Force*

1 Fighter Squadron (UE 25 A/C)

f. *Ecuador*

(1) *Army*

1 AAA (AW) Battalion

(2) *Navy*

1 Patrol Craft (PF)

(3) *Air Force*

1 Fighter Bomber Squadron (UE 25 A/C)

g. *Guatemala*

Army

1 Infantry Battalion

h. *Haiti*

Navy

3 Patrol Craft (CGPB)

i. *Honduras*

Army

1 Infantry Battalion

j. *Nicaragua*

Army

1 Infantry Battalion

k. *Peru*

(1) *Army*

1 AAA (AW) Battalion

(2) *Navy*

6 Patrol Craft (DE/PF)
2 Submarines (SS)
4 ASW Training Submarines (OSS)

(3) *Air Force*

2 Fighter Bomber Squadrons (UE 25 A/C)
1 Light Bomber Squadron (UE 16 A/C)

l. *Uruguay*

(1) *Army*

1 Infantry Regiment

(2) *Navy*

2 Destroyer Escorts (DE)
1 Comp Reconnaissance A/C Squadron

(3) *Air Force*

1 Fighter Bomber Squadron (UE 25 A/C)
1 Light Bomber Squadron (UE 16 A/C)

II. Non-Military Assistance

(Prepared by the Department of State and the International Cooperation Administration)

Defense Support

In accordance with paragraph 24 of the policy paper, estimated expenditures for economic development assistance (now converted to Defense Support by Congress) show a downward trend in FY 1958 and 1959. Economic grant aid to Haiti has already been discontinued. It is believed that such aid will not be required for Guatemala in FY 1958, and that Bolivia is the only country for which there will be a continuing need for grant economic assistance. Development Assistance has been and is being provided in Guatemala primarily for highway construction, hospital construction, rural development, agriculture and aided self-help housing. Projects may be developed in that country in health and education. In Bolivia Defense Support has centered on increased agricultural production and the development of transportation facilities. In Haiti emphasis in this program has been primarily devoted to rehabilitation and development of irrigation facilities and farm to market roads.

Under the recent Smathers Amendment Congress has provided $15 million in the FY 1957 budget for defense support in Latin America in the fields of Health, Sanitation, Education and Resettlement. No projects or project criteria have as yet been developed under this Congressional Action.

PL 480 Programs

The general magnitude of Title I PL 480 programs in Latin America to date is reflected in the following chart:

Country	Date Agreement signed	Cumulative total to date (Million Dollars) Market Value including ocean transp.	Loans[13]
Argentina	4/25/55, 12/21/55	31.1	20.0
Brazil	11/16/55	41.9	31.3
Chile	1/27/55, 3/13/56	39.6	31.7
Colombia	6/23/55, 12/20/55	16.9	10.0
Ecuador	10/7/55	4.0	3.1
Paraguay	5/2/56	3.0	2.2
Peru	2/7/55, 6/25/55	13.5	9.7
	Regional Total	150.0	108.0

In addition to the foregoing chart on the Title I PL 480 program to date in Latin America informal negotiations on possible future sales are underway in Colombia, Peru, Ecuador and Brazil.

Key uses of loan funds which have been made available to date include establishment or improvement of agricultural and industrial credit facilities, increased production of complementary agricultural commodities, and improvement of roads, and railroads.

[13] Loans for multilateral trade and economic development under Section 104 (g). Difference between amount indicated for loans and market value represents amount for U.S. uses. [Footnote in the source text.]

17. Editorial Note

On September 10, the Chairman of the OCB Working Group on Latin America, Spencer M. King, proposed to the Board Assistants that the Working Group prepare a single outline plan of operations for Latin America to replace the current "Outline Plan of Operations Against Communism" and all separate outline plans for individual countries. (Memorandum from King to Staats, September 10; Department of State, OCB Files: Lot 62 D 430, Latin America—1956) The Board Assistants considered this proposal at a meeting on September 21, and agreed to authorize the preparation of a new outline plan, which would supersede existing plans, but not the country papers drafted in pursuance of NSC Action 1290–d. After 11 meetings on the subject, between November 28, 1956, and January

10, 1957, the Working Group completed a draft "Outline Plan of Operations for Latin America", dated January 10. It was transmitted to all United States missions in Latin America for comment, under cover of Department instruction CA–5668, dated January 16, requesting the missions to submit replies prior to February 14. (*Ibid.*, Central Files, 611.20/1–1657) On the basis of suggestions and recommendations from the missions and OCB agencies, the Working Group prepared a revised version of the Plan, dated February 28. At its meeting on March 8, the Board Assistants further revised this draft, and concurred in its submission to the OCB under date of March 11.

On March 20, 1957, the OCB revised and concurred in the March 11 draft, but also recommended clarification with respect to the role of labor activities in the implementation of NSC policy objectives. On April 10, the OCB approved agreed substitute language relating to labor activity in the operational guidance section of the Plan. Finally, at its meeting on April 18, the OCB concurred in the Plan as revised. The approved version, dated April 18, was subsequently transmitted to all Chiefs of Mission in Latin America under cover of similar letters sent out in early May 1957. (*Ibid.*, 611.20/5–357 and /5–957)

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18. Outline Plan of Operations for Latin America Prepared for the Operations Coordinating Board[1]

Washington, April 18, 1957.

OUTLINE PLAN OF OPERATIONS FOR LATIN AMERICA
(COMPLETE TEXT)

I. Introduction

A. References:

(1) U.S. Policy Toward Latin American (NSC 5613/1), Approved by the President September 25, 1956

[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America, January–May 1957. Secret. A covering title sheet, an undated action memorandum from OCB Executive Assistant Charles E. Johnson, and a statement of purpose and use of this Outline Plan are not printed.

(2) NIE 80/90–55, Conditions and Trends in Latin America, December 6, 1955[2]
(3) NSC 5602/1 (Basic National Security Policy) and Specific Subsidiary NSC Papers
(4) Outline Plan of Operations With Respect to Antarctica, December 19, 1956[3] (especially OCB Course of Action 4)

This Plan supersedes Outline Plan of Operations for Guatemala, June 1, 1955; Outline Plan of Operations Against Communism in Latin America, April 18, 1956; and Outline Plan of Operations for Brazil, June 27, 1956. This Plan does not supersede the "Analyses of Internal Security Situation and Recommended Action" which have been prepared under NSC Action 1290–d for Bolivia, Brazil, Chile, Guatemala and Venezuela, and which will be prepared for such other countries in the area as may be scheduled; all of these analyses become Internal Security Annexes to this Outline Plan.

B. Special Operating Guidance

1. Overall U.S. objectives with relation to the twenty other American Republics are stated in NSC 5613/1 as follows:

"a. Keep the other American Republics friendly toward the United States and retain their support of our world policies.
"b. Encourage the development of stable political systems along democratic, representative lines.
"c. Encourage the growth of sturdy, self-reliant economies based upon the free enterprise system.
"d. Reduce and eventually eliminate Soviet bloc and Communist influence in the area.
"e. Obtain adequate production of and access to materials essential to our security.
"f. Obtain the participation in and support of measures to defend the hemisphere."

2. In implementing our policies in Latin America, emphasis should be placed on:

a. The full application within its precise limits of the principle of non-intervention by the U.S. Government unilaterally in the internal affairs of the other Republics, a principle based on the cardinal U.S. policy for self-determination of peoples. While this principle does not preclude multilateral action through the OAS, it

[2] NIEs for specific countries in or parts of the area are as follows: NIE 93–57, Jan. 8, 1957 (Brazil); NIE 80–57 (in process) (Central America & Caribbean); NIE 88-56, Apr. 10, 1956 (Colombia); NIE 91–56, July 17, 1956 (Argentina); NIE 92–56, Sept. 11, 1956 (Bolivia); SNIE 83.3–56, Sept. 27, 1956 (Nicaragua); NIE 82-55, July 26, 1955 (Guatemala); SNIE 84–55, Jan. 11, 1955 (Panama); NIE 80–54, Aug. 24, 1954 (Caribbean Republics); NIE 87–54, Mar. 9, 1954 (European Dependencies in Caribbean Area). [Footnote in the source text.]

[3] Scheduled for publication in a forthcoming volume.

does prevent the taking of sides by the U.S. Government either in favor of or against a recognized Latin American government, whether it be democratic or a dictatorship, while recognizing any such government's sovereignty over its own policies whether the United States agrees with them or not. While the United States desires stability and favors progress through evolution rather than revolution, it must be recognized that in some cases revolutionary activities may represent normal growing pains toward democratic stability with justice.

b. The related principle of individual and collective (e.g., OAS) aid to any of the twenty-one Republics against intervention, attack, or communist subversion.

c. Action to eliminate Soviet bloc and communist intervention or influence. (For background see Annex A, Communism in Latin America[4]).

d. The encouragement (but not the imposition) throughout the area of free private enterprise, with its corollary of free labor movements. One of the immediate problems of greatest importance in the Latin American labor field is the need for the continued development of effective anti-Communist programs. Consequently, particular attention should be given to the guidance contained in this paragraph in carrying out OCB Courses of Action 19–1 through 19–9.

e. Encouragement of each of the other Republics to do all in its own power to set its own house in order for economic development, especially through adoption of sound monetary and fiscal policies, utilization of free private enterprise, and maintenance of freedom from Soviet bloc or communist influence, as a condition of full granting, or in some cases even as a condition of full continuance, of U.S. cooperation and assistance.

f. The encouragement throughout the area of trade expansion, and the reduction or elimination of barriers to such expansion.

3. Attention is drawn to the following special considerations:

a. The U.S. Government has no technical cooperation programs of its own to "sell" the other Republics. We support programs of the host government in which the latter has a genuine interest and desire for our participation and where our participation makes a contribution toward the achievement of our foreign policy objectives commensurate with its cost.

b. Emphasis in U.S. military program[illegible] area is on persuading Latin American countries to limit [illegible]itary objectives to those privately determined by the United [illegible]es Government to be necessary for their internal security and [illegible]ountry and hemisphere defense needs, accompanied by standardization along U.S. lines, which has been adversely affected by a trend toward purchase of military equipment from European and other sources. In some cases it is in the U.S. interest to provide military equipment primarily for political reasons. This is especially true because of the unique

[4] Not printed; it is an expanded version, dated December 7, of the paper attached as Annex A to the "Outline Plan of Operations Against Communism in Latin America".

political position of military groups in Latin America. It is important to the United States to maintain influence with these groups. Against these considerations must be balanced, on a case by case basis, the consideration that the purchase and maintenance of excessive military equipment by Latin American states generally reduce their capacity to develop their economies.

c. The rapid rate of population increase and economic growth in the area, with their implications for probable future strength and importance to the United States, should be taken into consideration in the execution of all programs. These factors, the intense desire in the area for rapid economic progress and higher standards of living, and the current and prospective Soviet bloc economic and political drive in the area, emphasize the necessity for generous and vigorous implementation of U.S. policies in the area, especially loan and trade policies.

d. Latin Americans are sensitive to issues involving colonialism and intervention, and promptly support favorable U.S. stands on these issues.

e. Manifestly the very different conditions in the very different countries, or in the same country at different times, require flexible and imaginative implementation of the NSC policy and the OCB Courses of Action. For example, the extent to which the labor courses of action can or should be applied in Venezuela and the Dominican Republic is quite different from what can be done in Uruguay and Costa Rica, and the position within government of the military differs as among Mexico, Uruguay, Colombia and Argentina.

f. The strong nationalist feelings prevailing in most countries should be taken into account by all U.S. activities, whether government or private. They receive their inspiration and stimulation from several major sources, including historic opposition to colonialism, indigenous revolutionary movements, the widespread desires for economic and social betterment, and the resistance to rapid progress by long-established ruling families with a vested interest in maintaining the economic and social status quo. Much of the nationalism, and particularly failure to achieve nationalist objectives, takes the form of anti-U.S. sentiment and resentment. Communists have cleverly identified themselves with various nationalist groups and objectives in order to gain support and respectability for their operations, to obscure and disrupt the general progress and to intensify all anti-U.S. sentiment and focus it upon defeating U.S. objectives. To counter communist success and exploit nationalism in U.S. interests, it is necessary to demonstrate the mutuality of U.S. and legitimate nationalist desires. Taking as an example of nationalist feeling the current resistance in Brazil and Argentina to the development of petroleum resources by foreign private capital, every effort should be made to link such development with national objectives of economic and social progress, and to seek and exploit examples of progress made in other countries through welcoming foreign capital investments under adequate national controls.

g. (1) Perhaps the greatest threat to the achievement of U.S. policy objectives in Latin America lies in the complacency which too often characterizes the U.S. approach to the area, specifically as it is related to U.S. policies, objectives and programs in other parts of the

world where we confront problems of greater immediate import. Many Latin Americans feel the U.S. has neglected them; they point with resentment to the minuscule proportions of our total foreign economic and military assistance funds which have gone their way and tend to use these as a measure of our respect and consideration for them. Equally unjustified but equally prevalent is a feeling that the U.S. has not fulfilled what Latin Americans considered as World War II promises of aid and assistance. Latin Americans are prone to argue speciously that during the war they sold their products to us at prices we fixed at artificially low levels, that their access to vital imports was limited by the U.S., and that their accumulated dollar balances had to be expended after the war for such imports at prices which soared when we freed them from the wartime controls. (In fact, these balances were frequently mismanaged, and wasted on non-productive projects).

(2) Recalling that their expectations for sharply increased U.S. economic assistance were not fulfilled at the Rio de Janeiro Conference of 1954, Latin Americans have been somewhat cautious in permitting their hopes to be aroused by the Declaration of President Eisenhower in July 1956 at Panama regarding expansion and enhancement of the role of the OAS and by his appointment of Dr. Milton Eisenhower as his representative to meet with those of the other Presidents to carry out that project. With the recent developments on economic assistance to the Middle East and new loans to the United Kingdom, our southern neighbors are again feeling that it does not pay to be cooperative and friendly or to avoid serious problems. As one put it, "We must create a Communist menace to get aid."

(3) The foregoing attitudes are important and cannot be overlooked since they come into head-on collision with the basis of current U.S. economic policy with respect to Latin America, namely reliance and stress in economic development on the free-enterprise system and private capital investment, with grant economic assistance being reserved for temporary emergencies which affect U.S. interests, supplemented by loans for viable economic projects for which private capital is not readily available. Those charged with implementation of the NSC policy for Latin America must constantly strive to disabuse Latin Americans of their misconceptions, but they must also recognize the existence of such misconceptions in applying U.S. policy. They must strive to insure that this Government, at all appropriate levels, avoids pronouncements and actions which to Latin Americans could lend substance to these feelings. If our neighbors feel we under-rate them, or ignore them, or slight them, or consider them fourth-rate powers, there is little likelihood that we will achieve our objectives. On the other hand, to Latin Americans form, recognition, ceremony and a feeling of mutual participation are important. These cost us little and should be adhered to scrupulously.

C. U.S. Commitments and Understandings. See Annex B.[5]

II. Actions Agreed Upon

The OCB Courses of Action herein contain an Area Application designation only where such application is necessarily limited to less than the whole area and is not clear from the body of the Course of Action.

A. Political

NSC Citations	*OCB Courses of Action*
Para. 15a: "Keep the other American Republics friendly toward the United States and retain their support of our world policies."	15a–1. Seek to assure continuing Latin American solidarity with the United States in the UN against communism and on all other issues of major importance to the U.S. Attempt to block Soviet Bloc exploitation of colonialism or other divisive issues in the UN. *Assigned to:* State *Support:* USIA, . . . , labor *Target Date:* Continuing
Para. 16: "Achieve a greater degree of hemispheric solidarity . . ." [6]	16–1. In the entire range of U.S. relationships with Latin America, strive to convince the governments and peoples of the area that the U.S. is aware of and sympathizes with their legitimate interests and aspirations. Develop an awareness that cooperation with the U.S. is the best way for them to achieve their just goals. *Assigned to:* State, ICA, Defense, USIA, Treasury, Labor, Commerce, Agriculture *Support:* . . . *Target Date:* Continuing 16-2. Continue U.S. efforts through the committee of Guar-

[5] Not printed; it is a list of treaties and executive agreements.
[6] Ellipsis in the source text.

antor Powers under the Protocol of Peace, Friendship and Boundaries between Peru and Ecuador dated January 29, 1942, to bring about an amicable settlement of the Peruvian-Ecuadoran Boundary Dispute.

Assigned to: State

Support: Defense

Target Date: Continuing

16–3. Within the limits of U.S. economic policy, consider sympathetically the efforts of the Central American states to make ODECA a workable organization contributing to political stability, economic progress and cultural exchange.

Assigned to: State

Support: Treasury, Commerce, ICA, USIA

Target Date: Continuing

Area Application: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Para. 16a: ("Achieve a greater degree of hemispheric solidarity by:)

"a. Strongly supporting and strengthening the Organization of American States to make it a model of relationships among free nations, utilizing it wherever feasible to achieve our objectives, and promoting increased financial support on a proportional basis."

16a–1. Develop through the Inter-America Committee of Presidential Representatives a program that will make the OAS a more effective instrument of inter-American cooperation in the economic, social and informational fields, including promotion of increased financial support to the OAS by the U.S. and other member States according to the agreed scales of contributions.

Assigned to: State

Support: . . . , USIA, ICA, Treasury, Commerce, Labor, Agriculture, HEW, AEC

Target Date: Meeting of April 1957

16a–2. In the event of armed aggression, threats thereof, or other disputes among the Latin American states, exercise energetic leadership to insure maximum utilization of the machinery of the OAS to arrive at a peaceful solution.

Assigned to: State
Support: Defense, . . . , USIA
Target Date: As required

16a–3. Utilize, where appropriate, OAS regional centers for training, research, preparation of technical publications, or other services to the United States technical cooperation program.

Assigned to: ICA
Support: State, USIA, AEC
Target Date: Continuing

Para. 16b: ("Achieve a greater degree of hemispheric solidarity by:)

"b. Consulting with the Latin American States, whenever possible, before taking actions which will affect them or for which we wish their support."

16b–1. Consult or inform Latin American states on developments or actions in which they may be interested, where such action will promote Latin American support for or understanding of or a sense of participation as equals in our world and regional policies. In this connection, a maximum effort should be made to approach the other American republics sufficiently far in advance so that they may feel they have been consulted rather than merely informed of decisions already taken.

Assigned to: State
Support: USIA
Target Date: Continuing

16b–2. Develop a practice of expressing, as appropriate, U.S. appreciation for support given its policies by Latin American states, particularly when such

support has been solicited by this Government in connection with United Nations activities.

Assigned to: State

Target Date: Immediate

16b–3. In order to foster helpful Latin American initiative in the UN, publicize, as appropriate, UN activities of Latin American representatives consonant with U.S. policies as contributing to the strength of the UN and the free world, at the same time avoiding giving the impression that these representatives are simple following the U.S. lead.

Assigned to: USIA

Target Date: Continuing

Para. 16c: ("Achieve a greater degree of hemispheric solidarity by:)

"c. Giving special emphasis to the maintenance of a spirit of partnership and equality, promoting close personal relations with Latin American leaders and encouraging reciprocal visits by high Government officials and distinguished private citizens."

16c–1. Conduct all relations with Latin America in a manner which will convince the governments and peoples of the area that we consider them equal partners in undertakings of mutual interest and benefit.

Assigned to: State, ICA, USIA, Defense, Treasury, Commerce, Labor, Agriculture, AEC

Support: . . .

Target Date: Immediate and continuing

16c–2. Conduct both in Washington and in the field programs to train U.S. personnel assigned to Latin American countries in the language and customs of the country to which they are assigned.

Assigned to: State, USIA, Labor, ICA, CIA, Defense, AEC, Agriculture

Target Date: Immediate and continuing

16c–3. Through continuing recommendations from the field and through the several Departments of the U.S. Government, on a systematic basis:

a. Invite high Latin American government civilian and military officials and distinguished private citizens (including representatives from labor, management, professional circles and women's organizations) to visit the United States or its possessions as guests of the U.S. Government, to observe operations and activities;

b. Arrange for visits by high U.S. Government civilian and military officials and distinguished private citizens to the countries of the area as may be appropriate;

c. With careful discrimination, bestow U.S. Government decorations and awards on Latin Americans, civilians as well as military;

d. Encourage private U.S. organizations and individuals to follow actions parallel to a, b, and c.

Assigned to: State, Defense, Labor, ICA, Commerce, Treasury, AEC, Agriculture, Justice, Interior

Support: USIA, CIA

Target Date: Continuing

Para. 16d: ("Achieve a greater degree of hemispheric solidarity by:)

"d. Refraining from . . . unilateral intervention in the affairs of the other American Republics, without prejudice to multilateral action through the inter-American system, resorting to unilateral action only as a last resort to protect our vital interests."

16d–1. Develop and publicize the concept that the United States attempts to maintain friendly relations with the governments of all the other American republics without in any way implying approbation or disapprobation of the domestic policies of those governments.

Assigned to: State

Support: USIA

Target Date: Continuing

16d–2. In the conduct of relations with each of the other American republics avoid scrupulously any . . . intervention in their internal affairs.

Assigned to: State, USIA, ICA, Defense

Target Date: Continuing

Area Application: No exception, except as required by the circumstances of our unusual economic aid programs in Bolivia and Guatemala

16d–3. Continue the practice of being willing to hear those who call at the Department of State to discuss Latin American matters but, with particular reference to Central America and the Caribbean, refuse to be drawn into participation in internal political maneuvering.

Assigned to: State

Support: . . .

Target Date: Continuing

16d–4. Make increased efforts to convince the governments and peoples of the democracies that U.S. action or discrimination against the dictatorships would be the very type of intervention they themselves so vigorously decry, and could

Para. 16e: ("Achieve a greater degree of hemispheric solidarity by:)

"e. Taking into consideration, in determining the extent of U.S. assistance and support to particular American states, their willingness and ability to cooperate with us in achieving common objectives. If a Latin American state should establish with the Soviet bloc close ties of such a nature as seriously to prejudice our vital interests, be prepared to diminish governmental, economic and financial cooperation with that country and to take any other political, economic, or military actions deemed appropriate."

Para. 16f: ("Achieve a greater degree of hemispheric solidarity by:)

"f. Assisting American states which are resisting pressures from their neighbors, whenever such pressures are inimical to U.S. interests and the inter-American system."

Para. 17a: "Encourage, through consultation, prudent exchange of information, and other available means, individual and collective action against expansion of Soviet bloc influence or Communist or other anti-U.S. subversion or intervention in any American state."

often have an effect the opposite of what was intended.

Assigned to: State, USIA

Target Date: Continuing

16e–1. Without committing the United States, promote the belief within recipient governments that continued cooperation and assistance from the United States depend in part on their willingness and ability to cooperate with us in achieving common objectives, including the maintenance of a genuine and effective anti-communist policy.

Assigned to: State

Support: USIA, . . .

Target Date: Continuing

Area Application: Particularly applicable in Bolivia

16f–1. Implementation of the course of action at NSC Para. 16f is assigned as follows:

Assigned to: State

Support: USIA, . . .

Target Date: As required

17a–1. Make sustained efforts through bilateral action in Washington and in the countries, and through the OAS when appropriate, to implement the recommendations of Resolution 93 of the Tenth Inter-American Conference by:

a. Securing adoption by the other Latin American governments of any measures not already adopted by them to

require disclosure of the identity, activities, and sources of funds of those who are spreading propaganda of the international communist movement or who travel in the interests of that movement, and of those who act as its agents and in its behalf; and

b. Effecting a continuing bilateral or multilateral (as appropriate in particular cases) exchange of information among governments.

Assigned to: State

Support: USIA, CIA

Target Date: Immediate (but also see Course of Action 17a–7 below)

Area Application: All countries except Mexico, which did not adhere to Resolution 93

17a–2. Encourage Latin American Governments to recognize the concepts of Resolution 93 to the effect that:

a. Communism is a subversive, alien and conspiratorial movement which is a separate and distinct threat to the state, its government and its leaders which should not be dealt with merely as a part of the political opposition; and

b. The American Republics cannot permit, and if necessary must take action to prevent, the establishment of a communist-controlled government in one of the American Republics.

In this connection, where required, develop appropriate supporting data and information.

Assigned to: State

Support: USIA, Defense, CIA

Target Date: As feasible

17a–3. Within the framework of 17a–2a above, encourage as feasible and appropriate adoption of any necessary new and enforcement of existing and new legislation or executive orders:

a. To outlaw communist parties and activities;

b. To exclude communists from running for or holding any civilian or military office in the government or in a political party, in any trade union or rural or urban workers' organization, in employer organizations, in public or private education or in any other key activity;

c. To require registration and control the travel, funds, communications and other activities of communists;

d. To define and punish as subversion communist activity;

. . . . . .

f. To arrest and confine communists promptly upon the occurrence of war.

This may include development of suggested uniform or specific laws or executive orders modelled where possible on laws found effective in the United States.

Assigned to: State

Support: USIA, Defense, Labor, ICA, Commerce, . . . , Treasury, Justice

Target Date: As feasible

17a–4. Where it would aid U.S. objectives, publicize, and encourage local governments to

publicize, anti-subversion legislation in the area such as that recently enacted in Argentina, which has strong similarities with the U.S. law. Since Argentine law is nearer than any other to the kind of anti-communist legislation the U.S. wants to encourage in Latin America, publicize and show its effectiveness on a continuing basis.

Assigned to: USIA

Support: State

Target Date: Continuing

17a–5. Educate the Latin American governments and peoples on the use to which the Soviet Union and its satellites put their diplomatic, military, trade and other missions for purposes of subversion, intervention and direction of local communist activities. Make continued efforts to discourage diplomatic, military and other relations between the Soviet Bloc and Latin American governments.

Assigned to: State, Defense, USIA

Support: CIA

Target Date: Continuing

17a–6. Make a decision on a case-by-case basis, after careful study, as to the advisability of U.S. attempts to discourage acceptance by Latin American governments of direct Soviet Bloc offers of economic or technical assistance, or of UN assistance involving the receiving of Soviet Bloc technicians or of training within the Soviet Bloc.

Assigned to: State
Support: ICA, AEC
Target Date: As circumstances require

17a–7. Effect by all appropriate attributed and non-attributed action consistent with the proscription of . . . unilateral intervention, and with intelligence support:

a. An understanding in Latin American countries on the part of political parties, the church, the armed forces, labor, students and youth, intellectuals and educators, businessmen, women, agrarian elements and key local groups, and through them the general public, of the subversive, conspiratorial, fraudulent and brutal nature of communist action, and of its overriding ulterior purpose to serve Soviet Bloc intervention at the sacrifice of the welfare of the people of the country;

b. A deep personal appreciation on the part of the Latin American governments, leaders and peoples for the political, aesthetic and social thought of the United States and for Western democratic ideals and institutions, so as to lead them and the generations under their influence to desire increased collaboration with this country. In this connection impress upon all U.S. personnel the importance of demonstrating U.S. ideals in their contacts with the local population as a means of further contributing to the development of democratic institutions and ideals in Latin America.

a. and b. Assigned to: USIA, State, ICA, Defense, Labor, Commerce, Treasury

Support: . . .

Target Date: Immediate and continuing

c. The encouragement of Latin American countries to develop and implement programs of anti-communist indoctrination for their respective armed forces, as their own idea of one way to reduce and eventually eliminate Soviet Bloc and communist influence in their respective countries.

c. Assigned to: State

Support: Defense, USIA

Target Date: Immediate

17a–8. Make renewed efforts to develop the essential information needed to deal with the problems of communism in Latin America by:

a. Preparing basic studies on communism in the Latin American republics on a selective basis;

b. Intensifying efforts to identify the nerve centers, communication lines and sources of financing of the communist apparatus in Latin America in order to take further measures which will weaken this apparatus and thus weaken the whole organization.

Assigned to: State

Support: CIA

Target Date: Continuing

17a–9. Screen information on communism developed by the intelligence agencies, to select information which might usefully be made available to the Latin American governments and se-

cure approval for its release in implementation of Resolution 93.

Assigned to: State

Support: CIA, USIA, Defense

Target Date: Immediate

17a–10. Urge the Latin American Governments to discourage or prevent the holding of communist and communist-front meetings or conferences in Latin American countries and the attendance of their nationals at such meetings. Use of government facilities of whatever nature should be denied wherever possible. Develop on a continuing basis appropriate intelligence support.

Assigned to: State

Support: USIA, CIA

Target Date: As circumstances require

Area Application: As circumstances require

17a–11. As a means of discouraging or preventing travel to communist-sponsored conferences, meetings or schools, either within or outside the hemisphere, seek means of intensifying psychological deterrents to travel, especially on the part of youth, to the Soviet Bloc countries, and encourage Latin American governments to:

a. Adopt regulations with regard to the issuance of passports which would deny a passport to any person who might be expected to use it for travel in the interests of communism; and

b. Adopt visa regulations to regulate and prevent where necessary travel within the Latin American area of Soviet Bloc na-

tionals and persons who are believed to be travelling in the interests of communism.

Assigned to: State, USIA

Target Date: Immediate

17a–12. When appropriate undertake to brief Latin Americans who plan to visit Soviet Bloc countries, such briefing to be tailored for the individual concerned. Ask the traveler to observe certain pre-determined matters in his field of interest as a means of conditioning his attitude.

Assign to: State

Support: USIA, . . .

Target Date: As feasible

17a–13. In connection with the visits of high United States civilian and military officials to Latin America, brief these officials as to what they can do to encourage action against communism, either through public statements, private conversations or other means.

Assigned to: State, USIA

Support: CIA

Target Date: Continuing

Para. 17b: "In the event of threatened or actual domination of any American state by Communism, promote and cooperate through the OAS in the application of measures available under the Rio Treaty (including military) to the extent necessary to remove the threat to the security of the hemisphere, taking unilateral action only as a last resort."

17b–1. Implementation of the course of action at NSC Para. 17b is assigned as follows:

Assigned to: State

Support: Defense

Target Date: On occurrence of contingency

Para. 18a (first sentence): "Encourage acceptance and implementation by interested states of the principle that dependent and colonial peoples in this hemisphere should progress by orderly processes toward a self-governing status."

Para. 18a (second sentence): "Toward this end, we should continue our technical cooperation programs in these areas."

18a–1. Implementation of the Course of Action in the first sentence of NSC Para. 18a is assigned as follows:

Assigned to: State, USIA
Target Date: Continuing

18a–2. Conduct technical cooperation programs in selected Western Hemisphere dependent territories, designed to support local development plans by supplying U.S. technicians, by training participants in the continental United States and in Puerto Rico, and by strengthening local and regional technical training facilities. These are currently programmed at approximately $1,250,000 for FY 1957.

Assigned to: ICA
Support: State, USIA, AEC
Target Date: Continuing
Area Application: British Guiana, British Honduras, Jamaica and Surinam

(This course of action would apply to Trinidad, Barbados, and Windward and Leeward Islands in the event of signature of pending technical cooperation agreement).

18a–3. Utilize the facilities of the Caribbean Commission, and cooperate with that organization in providing technical cooperation on a project by project basis to the French and other Caribbean dependent territories with whom general technical cooperation agreements have not been signed.

Assigned to: ICA, State
Support: USIA, Commerce

Target Date: Continuing

Area Application: All Caribbean dependent territories with whom technical cooperation agreements have not been signed.

Para. 18b: "When disputes between American and non-American states over dependent territories cannot be settled by direct negotiations, encourage peaceful settlements by other methods available to the parties."

18b–1. Encourage Guatemala and Great Britain to resolve the Belice (British Honduras) issue, with due consideration of Mexico's contingent claim, through diplomatic negotiations or through international legal procedures such as arbitration or submission to the International Court of Justice. Avoid favoring one or another of the parties to the dispute. Exercise a restraining influence whenever Guatemalan aspirations appear to lead them to the verge of precipitate action to take British Honduras, as by, among other things, forcefully pointing out that such action would alienate public, Congressional and Government opinion in the United States to a point requiring a reappraisal of our aid programs.

Assigned to: State

Support: ICA

Target Date: Continuing

Area Application: Guatemala

18b–2. When appropriate, encourage Argentina to exercise restraint and to utilize diplomatic negotiations in its claim on the Falkland Islands.

Assigned to: State

Target Date: When appropriate

Area Application: Argentina

Para. 19: "Assist and encourage programs designed to develop a social consciousness and responsibility on the part of management and labor, the improvement of labor-management relations, and the continued growth of democratic, responsible trade unions."

19–1. Support in every way proper those activities of ORIT, the International Trade Secretariats, and the democratic trade unions of Latin America which further the ends of United States policy and promote the interests of free labor and of the Latin American countries. Encourage and assist in the establishment of cooperative and mutually beneficial relations between democratic United States unions and democratic Latin American unions, whether such relations be direct or through ORIT and the ITS's.

Assigned to: State, Labor, ICA, USIA

Support: . . .

Target Date: Continuing

Area Application: Where appropriate

19–2. Encourage Latin American governments to adopt laws, policies and practices designed to carry out the purposes of NSC Para. 19, with particular emphasis on the development of an independent labor movement free from communist or other totalitarian control.

Assigned to: Labor, State

Support: USIA, . . . , ICA

Target Date: Continuing

19–3. To the extent that facilities and qualified candidates are available or can be made available, expand existing programs permitting Latin American trade unionists to visit the United States and Puerto Rico in order that they may see how trade unions can be independent, democratic and effective and can

achieve their goals more effectively in private enterprise surroundings; can learn how to detect communist activities in the labor movement; and may be convinced of the mutual interests and desirability of cooperation between working people in the United States and in their own countries.

Assigned to: Labor, State, ICA

Support: USIA, . . .

Target Date: Continuing

19–4. Encourage the introduction into the curriculum of Latin American state and private universities of programs of study on modern business management, labor economics and industrial relations, including special and night classes for labor and management, with U.S. financial and other aid where appropriate and necessary. Solicit the cooperation of U.S. universities in these efforts.

Assigned to: State, ICA, USIA

Support: Labor, Commerce

Target Date: Continuing

Area Application: As appropriate

19–5. Encourage Latin American governments, where appropriate, to make arrangements—preferably with trade union collaboration—for the training in those countries of an adequate number of trade unionists in order to contribute to the continuous development of capable and intelligent trade union leadership, such training to include instruction on the nature and practices of communism.

Assigned to: Labor, State, ICA

Support: USIA, . . .

Target Date: As feasible

19–6. Encourage private U.S. companies operating in Latin America to develop and apply exemplary labor-management relations and otherwise to conduct their operations so as to obviate allegations of capitalist exploitation and Yankee imperialism.

Assigned to: State, Labor, USIA

Support: Defense, Commerce, ICA

Target Date: Continuing

19–7. Direct U.S. agencies and government-owned companies to develop and apply exemplary employment practices and relations with local employees.

Assigned to: State, Defense, ICA, USIA, Commerce

Target Date: Continuing

19–8. Encourage the visits of U.S. trade unionists, qualified by ability, helpful attitude to Latin Americans and knowledge of Spanish or Portuguese, to Latin American countries, at U.S. expense if necessary, in order to develop mutual understanding between Latin American and U.S. labor movements and to promote free and democratic trade unionism.

Assigned to: State

Support: Labor, ICA, USIA

Target Date: Continuing

19–9. Where the trade union movements are ready to undertake worker educational and research activities, encourage them to organize programs in these fields.

Assigned to: State, Labor, ICA, USIA

Target Date: Continuing

Para. 20: "Enlist the support of Latin American governments to prevent direct and indirect shipments of strategic materials to the Soviet Bloc."

20–1. Keep the Latin American governments informed with respect to the requirements of U.S. law (Mutual Defense Assistance Control (Battle) Act of October 23, 1951) and, where deemed appropriate, of agreed international control over the shipment of strategic commodities to the Soviet Bloc.

Assigned to: State, ICA

Support: EDAC agencies

Target Date: Continuing

20–2. Urge the Latin American governments to prevent the shipment of strategic materials to the Soviet Bloc and the participation of their citizens in diversion schemes.

Assigned to: State, ICA

Support: Commerce, USIA

Target Date: Continuing

Area Application: All countries except Chile and Mexico (see Courses of Action 20–3 and 20–4 below)

20–3. Urge the Chilean Government to establish effective controls over exports of copper, i.e., to extend import certificate-delivery verification requirements, which now apply only to shipments by the large copper companies to destinations other than the United States, to shipments by all companies to all areas, including the United States. Also seek effective control of in-transit shipments.

Assigned to: State

Support: ICA, Commerce

Target Date: Continuing

Area Application: Chile

20-4. Through informal contacts between the U.S. Embassy in Mexico City and the principal exporters of strategic materials in Mexico, seek to obtain their continued cooperation in preventing the movement of strategic materials to the Soviet Bloc.

Assigned to: State

Support: ICA, Commerce

Target Date: Continuing

Area Application: Mexico

20–5. Discuss frankly with the government concerned each case of shipments of strategic commodities of domestic or foreign origin to the Soviet Bloc, either directly or through transshipment or other diversion, and its implications with respect to the Battle Act.

Assigned to: State, ICA

Support: EDAC agencies

Target Date: As circumstances require

20–6. Make representations with respect to trade with the Soviet Bloc in non-strategic commodities when it appears:

a. That such trade is or may be accompanied by an influx of Soviet Bloc traders whose purposes may be political as much as commercial; or

b. That a Latin American country is becoming or may become dependent on Soviet Bloc trade to such an extent that strategic trade controls could be undermined or means afforded whereby the Bloc could otherwise extract undue economic or political concessions.

Assigned to: State, ICA
Support: Commerce
Target Date: As circumstances require

20–7. When appropriate, remind Latin American countries of the Foreign Assets Control regulations of the U.S. Treasury prohibiting the use of U.S. dollars and banking facilities or the involvement of U.S. firms in financial transactions with Communist China.

Assigned to: State
Support: EDAC agencies
Target Date: Upon receipt of indications that trade with Communist China is under consideration
Area Application: As required, with special reference to Cuba and Uruguay

B. Economic

Para. 21: "Maintain stable, long-term trading policies with respect to Latin America designed to expand existing levels of inter-American commerce. In order to achieve a high level of inter-American trade in accordance with the most-favored-nation principle, (a) press strongly for reciprocal reductions of barriers to such trade, and (b) take the lead by reducing further our own trade restrictions over the next few years, with due regard to national security and total national advantage."

21–1. Through our respective Embassies continue to point out to those Latin American countries which are not parties to the General Agreement on Tariffs and Trade[7] (GATT) the benefits of a genuine multilateral approach to reduction of trade barriers, as compared with bilateral or even regional trading arrangements, and encourage them to become members of GATT.

Assigned to: State
Support: Commerce
Target Date: Continuing
Area Application: All LA countries not members of

[7] For text, see 61 Stat. (5 and 6).

GATT—currently Argentina, Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, El Salvador, Venezuela

21–2. Examine on the basis of their individual merits proposals for regional trading arrangements within Latin America and make it clear that such arrangements should conform to the principles of Article XXIV of GATT, i.e., that they promote development of more economic sources of supply and expansion of real income for the participating area rather than diverting trade from low-cost to higher-cost sources of supply.

Assigned to: State, Commerce, Treasury

Target Date: Continuing

Area Application: Nicaragua, Honduras, El Salvador, Guatemala, Costa Rica; elsewhere as circumstances arise

21–3. Endeavor to offset the influence of nationalist protective elements working within each country for retention or imposition of exchange controls, quotas and higher tariffs.

Assigned to: State, Commerce, Treasury, ICA, USIA

Target Date: Continuing

21–4. While exhibiting sympathetic consideration for and understanding of their economic and trade problems, attempt to prevent or at least to minimize the increases which several Latin American countries are making or undoubtedly will attempt to make in their tariff structures in the next few years.

Assigned to: State

Support: Commerce, ICA, Treasury

Target Date: Continuing

Area Application: Currently Colombia, Cuba, Brazil, Mexico, Panama, Peru, Venezuela

21–5. Scrutinize carefully all U.S. legislative proposals which would impose restrictions on the importation of Latin American products to determine whether they are in conformity with the long-range commercial policy objectives of the United States and with our political objectives in Latin America.

Assigned to: State, Commerce

Support: Treasury

Target Date: As required

21–6. To the extent feasible, avoid the imposition of U.S. import quotas, and all recommendations to foreign entities, whether government or corporate, for the imposition of restrictions on exports to the U.S., unless required by national security considerations and consistent with U.S. political objectives and the maintenance of stable, long-term trading policies designed to expand existing levels of inter-American commerce.

Assigned to: ODM, State, Commerce

Support: Treasury, Agriculture

Target Date: Continuing

Area Application: Especially Venezuela

Para. 22: "Be prepared to encourage, through the Export-Import Bank, the financing of all sound economic governmental development projects or private commerical projects, for which private capital is not readily available, provided each loan is (a) in the interests of both the United States and the borrowing country; (b) within the borrower's capacity to repay; (c) within the bank's lending capacity and charter powers; and (d) sought to finance U.S. goods and services."

22–1. Make known in Latin America the policy contained in NSC Para. 22.

Assigned to: State, Treasury

Support: ICA, USIA, Commerce, AEC

Target Date: Immediate and continuing

Para. 23: "Support applications for sound development loans which are submitted to the IBRD."

23–1. As appropriate inform the NAC that the support of applications for sound development loans which are submitted to the IBRD would be advantageous from the standpoint of national security considerations.

Assigned to: State, Treasury, Commerce, ICA

Target Date: Continuing

Para. 24: "Only if actions under paragraphs 21, 22 and 23 are inadequate and then only with the approval of the President or his designee in each case, make soft dollar loans or provide grant economic assistance to meet conditions of temporary emergency affecting U.S. interests which the local government cannot solve with resources at its command. Encourage the beneficiaries of such programs to relinquish U.S. aid and to become self-reliant as soon as it is possible to do so. Notwithstanding the foregoing, continue our aid to the Inter-American Highway and the Rama Road, and encourage the use for economic development purposes in the purchasing countries of the local currency proceeds obtained through the sale of surplus agricultural commodities."

24–1. Extend emergency grant economic assistance only within established criteria on a case by case basis, making the temporary and exceptional nature of such assistance clear to the recipients and to other Latin American countries. Where offered, keep aid programs under constant review and re-examination in the light of developments in order to reduce or terminate them as soon as such action is possible within U.S. interests and recipient country capabilities.

Assigned to: State, ICA
Support: USIA, Treasury
Target Date: As required
Area Application: As required

24–2. In continuing the grant economic assistance program in Bolivia (currently programmed at $20 million for FY 1957) intensify U.S. emphasis on encouraging Bolivia to increase its efforts to achieve monetary stabilization and to attract additional foreign and domestic private capital for the expansion of its industries, particularly petroleum and minerals.

Assigned to: State, ICA
Support: Treasury, USIA
Target Date: Continuing
Area Application: Bolivia

24–3. In continuing the Defense Support program in Guatemala within the $15 million specifically appropriated by the Congress for this purpose for FY 1957, concentrate emphasis on successful completion of the Atlantic and Pacific Highway projects and if possible establish the

Guatemalan Rural and Agricultural Development Program on such a basis that it can be continued after FY 1957 without depending on grant economic assistance.

Assigned to: State, ICA
Support: USIA
Target Date: Continuing
Area Application: Guatemala

24–4. Where Congress, as in the case of the Smathers Amendment[8] (Section 4, para. 4 of PL 726, 84th Congress), provides special economic development funds, every effort must be made to program their use effectively for sound purposes.

Assigned to: ICA, State
Target Date: Continuing

24–5. Seek appropriation for FY 1958 of the remaining approximately $12 million authorized by the Congress and required to complete the Inter-American Highway on an accelerated construction schedule. Seek an amendment to the Federal Aid Highway Act to authorize the appropriation of an additional $10 million in FY 1958, or such other additional funds as may be required to place a bituminous surface on the full length of the highway as planned.

Assigned to: Commerce (Bureau of Public Roads)
Support: State
Target Date: As appropriate

[8] Named after Senator George A. Smathers (D.–Fla.), this amendment to the Mutual Security Act of 1956, provided for the use of a portion of the defense support funds authorized by the Act in the form of loans for health, education, and sanitation projects, and land resettlement programs in Latin America. For text of the Act (P.L. 726), approved July 18, 1956, see 70 Stat. 555.

24–6. Seek Congressional authorization and appropriation for FY 1958 of such additional funds as may be required to complete the Rama Road in Nicaragua.

Assigned to: State

Support: Commerce

Target Date: During 85th Congress, First Session

24–7. Be prepared within the limits of available authorizations to conclude new Title I PL 480 sales agreements with countries which are in a position to meet the criteria established for such agreements.

Assigned to: State

Support: Agriculture, ICA

Target Date: FY 1957

Area Application: Particularly Brazil, Colombia, Ecuador, Peru, Bolivia, Chile, Paraguay and Uruguay

24–8. In conjunction with the appropriate authorities of the recipient country, develop and implement sound economic development programs to be financed by local currency proceeds of U.S. sales of surplus agricultural commodities in such a way as to strengthen the economy of the foreign country and simultaneously to advance the interests of the United States.

Assigned to: ICA, State

Support: Agriculture, Treasury, USIA

Target Date: Continuing

Area Application: All countries with whom Title I PL 480 Agreements are or will be concluded

Para. 25: "Strengthen and program, on a longer term basis, technical cooperation; provided, always, that each country has a genuine interest in and desire for our participation in programs undertaken by them, and that our participation makes a contribution toward the achievement of our foreign policy objectives commensurate with its cost. Within these policy limits, increase specialized training of Latin Americans in the United States and third countries."

25–1. Strengthen the technical cooperation program, currently programmed at $32.5 million for FY 1957, within firm requests of host governments, carefully screening proposed program elements to assure:

a. Concentration on priority requirements within sound economic development plans and U.S. objectives; and

b. Maximum utilization of such implementation techniques as U.S., host-country and third-country training in order that the assignment of U.S. technicians to Latin American countries will conform to required and acceptable levels.

Assigned to: ICA, State

Target Date: Continuing

25–2. Publicize, and encourage local governments to publicize, both the basic philosophy of the ICA program and individual ICA projects to focus public attention upon the achievements and mutual benefits of U.S. technical cooperation.

Assigned to: USIA, ICA

Target Date: Continuing

25–3. Having in mind that early practical application of peaceful uses of atomic energy should aid the economic development to the American Republics as well as the psychological impact of such development, and, where applicable, within the framework of whatever coordinating mechanism is established within the OAS:

a. Be prepared to conclude bilateral nuclear research and power agreements for coopera-

tion with any of the interested American Republics.

b. Encourage the early application of radioisotopes to agriculture, medicine, biology and industry, and the development of appropriate national programs for nuclear research and power.

c. Continue financial assistance to research reactor projects and cooperate in the development of nuclear power projects where they are feasible and desirable.

Assigned to: State, AEC, ICA
Support: USIA
Target Date: Continuing

25–4. Publicize U.S. contributions to the development of atomic energy for peaceful purposes as indicating sincere U.S. desires for peace and economic and social progress.

Assigned to: USIA
Support: State, AEC
Target Date: Continuing

25–5. Increase U.S. assistance for the training of specialists, particularly in education and atomic energy, both as a means of reducing the dependence of Latin American governments on such communists as in some cases may be retained merely because there is no qualified person to replace them, and to increase U.S. community of interest with Latin America.

Assigned to: ICA, State, AEC
Target Date: As feasible

Para. 26: "While recognizing the sovereign right of Latin American states to undertake such economic measures as they may conclude are best adapted to their own conditions, encourage them by economic assistance and other means to base their economies on a system of private enterprise, and, as essential thereto, to create a political and economic climate conducive to private investment, of both domestic and foreign capital, including:

"a. Reasonable and non-discriminatory laws and regulations affecting business.

"b. Opportunity to earn and, in the case of foreign capital, to repatriate a reasonable return.

"c. Reasonable rate-making policies in government-regulated enterprises.

"d. Sound fiscal and monetary policies.

"e. Respect for contract rights, including assurance of prompt, adequate and effective compensation in the event of expropriation."

26–1. With respect to the program to conclude new and to revise old treaties of friendship, commerce and navigation (FCN) with as many Latin American countries as possible:

a. Urge Uruguay and Nicaragua to ratify the treaties negotiated in 1949 and 1956 respectively;

b. Continue efforts to obtain Colombian concurrence in an acceptable statement on freedom of religion in order that the treaty negotiated in 1951 may be resubmitted to the U.S. Senate for advice and consent to ratification;

c. Provided there is a serious expression of interest on the part of other Latin American governments, offer to negotiate with them the new type of FCN treaties. Ecuador, Peru, Chile, Venezuela and possibly El Salvador and Guatemala have indicated some interest;

d. When it appears that the other party may be interested, offer to revise or supplement out-dated FCN treaties in effect with Costa Rica (1851), Argentina (1853), Bolivia (1858), Paraguay (1859), El Salvador (1926), and Honduras (1921).

Assigned to: State

Support: Commerce, Treasury

Target Date: Continuing

26–2. With respect to double taxation treaties:

a. Seek to conclude treaties with Cuba and Mexico on the basis of negotiations currently under way;

b. Enter negotiations with Colombia, Haiti, and Venezuela if these countries are willing to negotiate on the basis of proposals already made to them;

c. Proceed with exploratory talks with Chile;

d. Continue exploratory talks with Costa Rica and Peru when those countries are prepared to discuss the matter further;

e. Offer to negotiate treaties with all other countries except Honduras (with which a treaty is presently in force).

Assigned to: Treasury and State

Support: Commerce

Target Date: Continuing

26–3. Where appropriate, progressively implement plans to persuade, by attributed or unattributed action or both, Latin American countries having undeveloped petroleum reserves to open the oil industry to private enterprise, both domestic and foreign.

Assigned to: State

Support: Commerce, Treasury, USIA, ICA, . . . , Defense

Target Date: As prudently feasible

Area Application: Particularly Argentina and Brazil

26–4. Through liberal use of concrete examples and by other means, convince the people of Latin America that under the modern free enterprise system and its concept of social responsibility the economies of their countries can be developed more effectively than by any other

means, and that acceptance of assistance from Soviet sources, or any attempt to apply Soviet economic doctrine, would jeopardize the rapid progress now being made.

Assigned to: USIA

Support: State, . . . , Labor

Target Date: Continuing

26–5. Continue to support through ICA technical assistance the training of Latin American governmental economists in the principles of sound fiscal and monetary policy.

Assigned to: ICA, State

Support: Treasury

Target Date: Continuing

26–6. Exercise constant vigilance to protect American business from discrimination or other unfair treatment.

Assigned to: State, Commerce

Target Date: Continuing

26–7. In conformity with the advice of the National Advisory Council, seek to include provisions in Title I, PL 480 agreements that some portion of the local currency proceeds of sales be made available on a non-discriminatory basis for loans to private enterprises, both local and foreign.

Assigned to: State, ICA

Target Date: Continuing

Area Application: All countries with whom Title I PL 480 sales and loan agreements are concluded

26–8. Pursue opportunities to conclude investment guaranty agreements with those Latin American countries with whom

such agreements have not as yet been concluded.

Assigned to: ICA, State

Target Date: Continuing

Area Application: Argentina, Brazil, Chile, Cuba, Dominican Republic, El Salvador, Mexico, Nicaragua, Panama, Uruguay, Venezuela

26–9. Encourage the assignment of a maximum role to private initiative and capital in economic development plans through advice offered in technical cooperation programs.

Assigned to: ICA

Support: State, USIA

Target Date: Continuing

26–10. Encourage, through advice offered in the Atoms for Peace program, the assignment of a maximum role to private initiative and capital in the development and installation of nuclear power projects.

Assigned to: State, AEC

Support: ICA, USIA

Target Date: Continuing

26–11. Encourage the progressive development of competitive free enterprise systems by the Latin American countries as a means of contributing to rising levels of production and standards of living essential to their economic progress and defensive strength through:

a. National productivity centers which might be established in some countries with U.S. technical assistance;

b. Explaining American practices and showing how they produce good economic results;

c. Latin American studies that contribute to development of private initiative, competition and productivity.

Assigned to: State, ICA
Support: USIA
Target Date: Continuing

Para. 27: "In carrying out programs involving disposal of U.S. agricultural surpluses abroad:

"a. Give particular attention to the economic vulnerabilities of the Latin American countries and avoid, to the maximum extent practicable, detracting from the ability of these countries to market their own exportable produce.

27a–1. In concluding surplus commodity sales agreements, take into account the extent to which each agreement creates serious competitive problems for particular Latin American countries in connection with their efforts to dispose of their own production, especially of grains and cotton, through normal marketing transactions. To the maximum extent practicable, provide for the protection of normal channels of trade and normal marketing through prior consultation with other affected countries.

Assigned to: State
Support: ICA, Agriculture
Target Date: Continuing

"b. Give particular emphasis to the use of these resources to promote multilateral trade and economic development."

27b–1. Through coordinated planning with the appropriate U.S. Embassies, the governments of the countries concerned and interested Departments in Washington, assure that the programs referred to in 24–8 above are considered in developing sales and loan agreements on U.S. surplus commodities.

Assigned to: State, ICA
Support: Agriculture
Target Date: Continuing

Para. 28: "Where appropriate, encourage diversification of Latin American economies on a sound basis."

28–1. In the implementation of technical assistance programs, when requested by the host government, provide training and technical advice which will pro-

mote diversification of the economies of Latin American countries on a sound basis.

Assigned to: ICA, State
Support: USIA, Labor, AEC
Target Date: Continuing

28–2. Encourage Latin American countries to develop coordinated long-range economic development programs consistent with reliance on free private enterprise.

Assigned to: State, ICA
Support: USIA
Target Date: Continuing

C. Information and Related Activities

Para. 29: "Expand and make more effective information, cultural, education and exchange of persons programs, with particular emphasis on aid to American schools abroad, bi-national cultural centers, and exchange-of-persons programs, stimulating private groups to undertake appropriate programs."

29–1. Assure in all countries that U.S. program machinery for information and cultural activities is adequate to meet the tasks assigned in this Outline Plan.

Assigned to: USIA, State
Target Date: Continuing

29–2. In those countries where public opinion may significantly affect the achievement of U.S. objectives, in consultation with State make use of public opinion surveys in planning and conducting activities designed to achieve these objectives.

Assigned to: State and USIA
Target Date: As required

29–3. Develop and improve programs, particularly at the mission level, for systematic contacts with former participants in U.S. training or other programs in order to increase their effectiveness by sustaining their interest and as appropriate by providing material aids.

Assigned to: State, ICA, USIA, Defense

Support: Labor, HEW, Agriculture, AEC

Target Date: Continuing

29–4. Increase the number of linguistically and otherwise qualified U.S. citizens sent to teach, study and lecture in Latin America for the purpose of establishing effective personal contacts and promoting other objectives of this paper; such visits to be at the expense of American universities, colleges or foundations or at the expense of the U.S. Government.

Assigned to: State

Support: USIA, AEC

Target Date: Continuing

29–5. Expand the educational exchange program and increase support for the Inter-American School Service, in order to take advantage of the capabilities of U.S. educational media, both in this country and abroad, to establish a community of interest for closer orientation toward the United States, and to increase the number of U.S. citizens qualified by experience to deal effectively with Latin Americans.

Assigned to: State

Target Date: Continuing

29–6. Strengthen the bi-national center operations and other programs of cultural activities in order to make more effective contacts with intellectual forces in Latin America and appeal to the aspirations of youth.

Assigned to: USIA

Target Date: Continuing

29–7. Dramatize U.S.-Latin American friendship and focus public attention on the intellectual, technological and social dynamism of the United States, including its leadership in Atoms for Peace, through periodic presentations of exhibits, and other special events activities designed for broad popular impact. Arrange frequent tours by U.S. athletic teams and promote as appropriate joint U.S.-Latin American sports events.

Assigned to: USIA, State, AEC
Support: Defense
Target Date: Immediate

29–8. Solicit the cooperation and assistance of private international service groups such as Rotary International, and international professional associations such as the Inter-American Bar Association, wherever it appears that such groups can be useful in implementing courses of action of this Outline Plan.

Assigned to: State, USIA, ICA
Target Date: Continuing

29–9. Encourage and assist private groups, including the many committees taking part in the President's People-to-People program, to undertake projects related to appropriate objectives of this Outline Plan.

Assigned to: USIA, State
Target Date: Continuing

Para. 30: "Intensify appropriate . . . efforts to combat the activities of Communist and other elements hostile to the United States, without . . . unilateral intervention."

30–1. Encourage through attributed or unattributed output (see, e.g., NSC 165/1,[9] Para. 3) indigenous spontaneous tendencies, groups or action having any objectives contained in the courses of action of this Outline Plan, including persuasion of groups and individuals in Latin America away from communism.

Assigned to: USIA

Support: Labor, Defense, . . . , State

Target Date: As occasion presents

D. Military

NSC Citations

Paras. 31 and 32:

31. "Assume primary responsibility for hemispheric military operations in the Atlantic and Pacific Oceans and the Caribbean Sea, including the sea and air approaches to the Panama Canal, and seek from the states concerned acceptance of U.S. military control of the defense of these sea areas."

OCB Courses of Action

31/32–1. . . . seek through the U.S. Delegation to the Inter-American Defense Board (IADB) inclusion of the concepts of NSC Paras. 31 and 32 and the approval of this Plan by all of the American Republics.

Assigned to: Defense

Support: State

Target Date: Continuing

[9] NSC 165/1, "Mission of the U. S. Information Agency," approved by President Eisenhower, October 24, 1953, is printed in *Foreign Relations*, 1952–1954, vol. II, Part 2, p. 1752.

32. "a. Encourage acceptance of the concept that each of the Latin American states is responsible for its own internal security and for providing, through effective military and mobilization measures, a contribution to the defense of the hemisphere by the defense of its coastal waters, ports and approaches thereto, bases, strategic areas and installations located within its own territory, and routes of communication associated therewith.

"b. In exceptional cases, be prepared to accept participation by a Latin American state in combined operations in support of U.S. military responsibility under paragraph 31 above, where its location and resources make such participation feasible, and where political or hemisphere defense considerations make such a course of action in the interests of the security of the United States."

31/32–2. Through the service missions, joint commissions, military assistance advisory groups, and the U.S. delegation to the IADB, encourage acceptance of the concepts stated in NSC Paras. 31 and 32.

Assigned to: Defense

Target Date: Continuing

31/32–3. Continue our defense planning with Brazil and Mexico through the joint commissions, keeping in mind the policy as stated in NSC Paras. 31 and 32 . . . .

Assigned to: Defense

Support: State

Target Date: Continuing

Area Application: Brazil and Mexico

31/32–4. Subject to annual NAC consideration and necessary Congressional appropriations, provide over a ten-year period the credits necessary to implement the military understanding with Venezuela of March 13, 1956 which entered into force on February 5, 1957.

Assigned to: Defense

Support: State, ICA

Target Date: Continuing

Area Application: Venezuela

31/32–5. Take necessary steps to prepare the way for Latin American participation with, and as desired by, the United States in carrying out U.S. responsibility for hemispheric military operations.

Assigned to: Defense

Support: State

Target Date: Continuing

32–1. Prepare and maintain a current estimate of the military

force structure required by each Latin American country to provide for the defense responsibilities stated in NSC Para. 32a and b.

Assigned to: Defense
Support: State
Target Date: Immediate

Para. 33: "Make available to Latin American states, on a grant basis if necessary, the minimum military equipment necessary to assist them to carry out the limited missions in the foregoing paragraph."

33–1. Review the military necessity of the force objectives to be supported under the Grant Military Assistance Program (see pages 19 through 22 of the Financial Appendix to NSC 5613/1), revising them as necessary to bring them in consonance with NSC Para. 31 and with the contribution to the defense of the hemisphere visualized in NSC Para. 32. As necessary and feasible, modify existing bilateral defense plans to reflect the revised force objectives.

Assigned to: Defense, State
Target Date: Immediate
Area Application: Those countries having MAP agreements with the United States

33–2. Make available to Latin American countries the minimum military equipment necessary to assist them to carry out the limited missions in NSC Para. 32 as consistent with NSC directives governing the priorities for allocation of military equipment. Be prepared to utilize approximately $40 million of FY 1957 MAP funds to permit such equipment to be made available on a grant basis or on a credit basis in those instances where procurement under the reimbursable provisions (Section 106) of

Para. 34a: "Recognizing that Latin American requests for military equipment are requirements against limited MDAP funds and supplies of U.S. military equipment; that their purchases of military equipment, especially on credit, have an adverse effect on their borrowing capacity and our ability to make loans to them for economic development purposes; that the denial of their requests has disadvantages for the United States; and that in certain instances the military elements in Latin America exercise a disproportionate influence on the governments; discourage Latin American governments from purchasing military equipment not essential to the missions in paragraph 32. Notwithstanding the foregoing, if a Latin American government cannot be dissuaded from purchasing unneeded military equipment, and if it is essential for U.S. political interests, make additional equipment available on a cash, credit, or, under extraordinary circumstances, grant basis, if appropriate."

the Mutual Security Act[10] is not feasible.

Assigned to: Defense
Support: State, ICA
Target Date: Continuing

34a–1. Utilize the estimated force requirements under OCB Course of Action 32–1 as a guide for and aid in determining the military need for equipment requested by Latin American governments.

Assigned to: Defense
Support: State
Target Date: Continuing

34a–2. Consider on a case-by-case basis requests to purchase military equipment in addition to that required for the purposes stated under NSC Para. 32.

Assigned to: State, Defense
Support: ICA
Target Date: Continuing

34a–3. Make a continuing effort to discourage Latin American governments from purchasing military equipment beyond that essential for the purposes stated in NSC Para. 32. Point out to Latin American officials the adverse effect which purchases of non-essential military equipment may have on their economic development objectives and particularly on their ability to borrow in the U.S. and elsewhere.

Assigned to: State, Defense
Support: ICA, Treasury
Target Date: Continuing

[10] Reference is to the Mutual Security Act of 1954.

Para. 34b. "In order to be in a position effectively to supply military equipment on a reimbursable basis in accordance with this and the foregoing paragraph:

"(1) Offer to Latin American governments military equipment at competitive prices and under competitive delivery dates.

"(2) Make sales of military equipment to Latin American governments on credit, which should normally be limited to three years."

34b–1. Implement promptly the amendment to Section 545(h) of the Mutual Security Act of 1954, as amended, which permits offering competitive prices on used military equipment.

Assigned to: Defense
Support: State
Target Date: Immediate

34b–2. Make use of the latitude permitted by the Annex to NSC 5517/1[11] to adjust priorities in specific instances as U.S. national interests require.

Assigned to: Defense
Target Date: Immediate

34b–3. Improve and make more systematic the procedures within the Executive Branch for considering requests to purchase military equipment on credit.

Assigned to: ICA
Support: Defense, State, Treasury
Target Date: Immediate

34b–4. Review procedures and revise as necessary to expedite processing of requests for purchase of military equipment.

Assigned to: State, Defense
Support: ICA
Target Date: Immediate

34b–5. Finance the extension of credit, normally up to three years, for the purchase of military equipment through MAP or Service funds as appropriate, in accordance with Sections 102, 103 or 106 of the Mutual Security Act of 1954 as amended.

Assigned to: Defense, ICA
Support: State
Target Date: Continuing

[11] Neither NSC 5517/1 nor the referenced Annex is printed.

34b–6. Contingent on Administration and Congressional approval of legislation which would permit the re-use as credits of funds made available to finance credit purchases of military equipment under Section 103 of the Mutual Security Act, utilize this additional legislative provision as appropriate to facilitate pre-delivery financing and extension of credit of up to three years for the sale of military equipment to Latin American countries, subject to the limitations of NSC Para. 34a.

Assigned to: Defense, ICA

Support: State

Target Date: Proposed legislation to be included in FY 1958 Congressional presentation

Para. 35: "Except when it will create undue demand on the United States for modernization, replacement, spare parts, and ammunition; seek, in the interests of standardization as well as for other reasons, to discourage purchases by Latin American governments of military equipment from other Free World countries, primarily by assuring the Latin American countries that we will endeavor to fill their essential requirements on reasonable terms. Wherever feasible, consistent with the above, seek to prevent other Free World countries from selling military equipment to Latin American States."

35–1. Consistent with NSC directives, make every effort to supply promptly the equipment Latin American governments request to equip units required for the purposes stated in NSC Para. 32.

Assigned to: Defense

Support: State

Target Date: Continuing

35–2. Discourage Latin American armed forces from purchasing military equipment from non-United States sources.

Assigned to: Defense

Support: State, ICA, USIA

Target Date: Continuing

Area Application: All countries, especially Argentina, Brazil, Colombia, Peru, Ecuador, Venezuela, Dominican Republic

35–3. If it is not required in the military or political interests of the United States that Latin

American countries receive equipment which they request, and if they cannot be dissuaded from purchasing it, without implying approval interpose no further direct objection to its purchase from non-United States sources. However, in considering requests for economic or military assistance, take into account and, where appropriate, point out to the governments concerned, the effect of such purchases on their borrowing capacity.

Assigned to: State, Defense
Support: ICA
Target Date: Continuing

35–4. Wherever possible without serious damage to other U.S. objectives, discourage European and other countries from supplying military equipment to Latin American countries, especially when the supply of such equipment will result in a military build-up in excess of that required under NSC Para. 32.

Assigned to: State
Support: Defense
Target Date: Continuing

Para. 36: "Seek to develop a conviction that collaboration, including military purchases, by any of the American states with Communist nations would be a serious hazard to all of the nations of this hemisphere."

36–1. Implementation of the course of action at NSC Para. 36, including intelligence support therefor, is assigned as follows:

Assigned to: State
Support: USIA, Defense, ICA, Labor, Commerce, CIA
Target Date: Continuing

Para. 37: "Proceed vigorously with the implementation of the program for strengthening the local police, constabulary and related forces necessary to maintain internal security and to destroy the effectiveness of the communist apparatus in the Western Hemisphere in countries found to be vulnerable to Communist subversion."

37–1. Implement promptly the recommendations in the special papers entitled "Analysis of Internal Security Situation and Recommended Action" for Bolivia, Brazil, Chile, Guatemala and Venezuela, which constitute Internal Security Annexes to this Outline Plan.[12] Recognizing that implementation of approved programs designed to carry out NSC Para. 37 has priority over the preparation of new special country papers, consider the need for such new papers when the situation requires.

Assigned to: State, ICA, Defense

Support: . . .

Target Date: Continuing

37–2. Where appropriate in the light of available intelligence and where accepted, strengthen the overt and covert security apparatus of Latin American governments responsible for maintaining surveillance over and for combatting communism.

Assigned to: ICA, State

Support: . . . , Defense

Target Date: Continuing, with expansion as appropriate

37–3. On an expanded basis offer technical training, advice, and, to the extent deemed essential, equipment to strengthen the administration, organization and techniques of police or other internal security forces where such assistance is requested and is deemed important to U.S. objectives.

[12] None of the referenced papers is printed as part of this Outline Plan.

Assigned to: ICA, State
Support: . . .
Target Date: Continuing

37–4. Where advisable, train selected Latin American military officers in counter-intelligence operations, with emphasis on detection of communist activities, and assist in establishing effective military counter-intelligence organizations throughout Latin America.

Assigned to: Defense
Support: CIA
Target Date: As feasible

Para. 38: "If participation of Latin American military units is required in future extra-continental defense actions, provide logistical support, if necessary without reimbursement, to such forces."

38–1. Implementation of the course of action at NSC Para. 38 is assigned as follows:

Assigned to: Defense, State
Target Date: As and when the requirement arises
Area Application: Any Latin American country which furnishes military units

Para. 39: "Take action as necessary . . . ,[13] to insure the continued availability to the United States of bases and base rights in Latin America that are considered vital to the security of the United States."

39–1. Implementation of the course of action at NSC Para. 39 is assigned as follows:

Assigned to: State
Support: Defense, USIA, ICA, Treasury, CIA
Target Date: Continuing

39–2. Negotiate an agreement for facilities in Brazil for the establishment of an Army communication station.

Assigned to: State
Support: Defense
Target Date: Immediate
Area Application: Brazil

39–3. Negotiate agreements for rights for LORAN stations in Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador,

[13] Ellipsis in the source text.

Para. 40: "Seek the continued cooperation of the Latin American states in carrying out the hemisphere mapping program."

Guatemala, Mexico, Haiti, Nicaragua, Panama.

Assigned to: State
Support: Defense
Target Date: Immediate

40–1. Continue implementation of the Inter-American Geodetic Survey and mapping activities where appropriate and necessary, to include a related training program to be associated therewith, in order to assist in the standardization of cartographic equipment, training, procedures and techniques. The ultimate goal is to obtain improved map coverage and establish cartographic self-sufficiency in the American states.

Assigned to: Defense
Support: State, ICA
Target Date: Continuing

40–2. Utilize Inter-American Geodetic Survey facilities for training within the technical cooperation program in order to develop basic mapping skills deemed essential in economic development objectives.

Assigned to: ICA, Defense
Target Date: Continuing

Para. 41: "Continue our active participation in the Joint Military Commissions we have with Brazil and Mexico, and make effective use of the IADB to achieve our military objectives."

41–1. Implementation of the course of action at NSC Para. 41 is assigned as follows:

Assigned to: Defense
Support: State
Target Date: Continuing

Para. 42: "Foster closer military relations with the Latin American armed forces in order to increase their understanding of, and orientation toward, U.S. objectives and policies."

42–1. Utilize our military missions, military assistance advisory groups, and Service Attaches to cultivate close relations with Latin American military officials with a view toward better understanding and orientation

toward U.S. policies and objectives.

Assigned to: Defense
Support: State, USIA
Target Date: Continuing

42–2. Exploit as feasible opportunities to use the U.S. Armed Forces for humanitarian and other purposes with a public relations value that illustrate the friendly mission and intentions of U.S. military operations in Latin America.

Assigned to: Defense
Support: State, USIA
Target Date: As situations arise

42–3. Arrange good-will visits of U.S. aircraft and naval vessels to Latin American states, as appropriate.

Assigned to: Defense
Support: State, USIA
Target Date: Continuing

42–4. Give particular attention to the prompt and effective handling of requests to purchase military equipment.

Assigned to: Defense
Support: State, ICA
Target Date: Continuing

Para. 43: "Continue, and establish where appropriate, military training missions in Latin American states, countering any trend toward the establishment of military missions, or agencies or individuals with a similar function, other than those of the American Republics."

43–1. Encourage the Latin American governments to prevent the extension of military influence other than that of the American Republics, especially Soviet-Bloc military influence, to Latin America in any form such as sales of military equipment or the assignment of military advisors or missions.

Assigned to: State, Defense
Support: USIA, . . . , ICA
Target Date: Continuing

43–2. Encourage as appropriate requests for the establishment of U.S. military missions in Latin American countries.

Assigned to: State, Defense

Target Date: Continuing

Para. 44: "Provide adequate quotas for qualified personnel for training in U.S. armed forces schools and training centers; encourage Latin American states to fill their authorized quotas at the three Service academies."

44–1. Encourage Latin American governments to take advantage of the training quotas to U.S. Service academies, Armed Forces schools and training centers, in order that more personnel from Latin America may become indoctrinated in our methodology and accustomed to our way of life, including anti-communist orientation.

Assigned to: Defense

Support: State, ICA

Target Date: Continuing

44–2. Normally, encourage requests for military quotas for the Latin American armed forces to the maximum extent consistent with U.S. training requirements. However, avoid providing categories and numbers which would tend to stimulate demands for non-essential military equipment.

Assigned to: Defense

Support: State

Target Date: Continuing

44–3. Broaden the scope of U.S. assistance to Latin American training programs, by the inclusion of visits to U.S. installations by Latin American naval units for training under the U.S. Navy Fleet Training Groups, using grant aid as authorized.

Assigned to: Defense
Support: State
Target Date: Continuing
Area Application: Latin American countries having MAP naval units—currently Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Haiti, Peru, Uruguay

Para. 45: "Study the advisability of encouraging the use of the Latin American military personnel for a constructive role in economic development projects."

45–1. Implementation of the course of action at NSC Para. 45 is assigned as follows:

Assigned to: ICA
Support: Defense, State, Labor, USIA
Target Date: Immediate

Para. 46: "Encourage to the maximum extent consistent with the needs and capabilities of each Latin American nation, the standardization along U.S. lines of military doctrine, unit organization and training."

46–1. Through all appropriate agencies of the Department of Defense, especially training missions, military assistance advisory groups, and the U.S. delegations to the several defense boards and organizations, promote to the greatest possible degree standardization along U.S. lines of military doctrine, training and unit organization.

Assigned to: Defense
Target Date: Continuing

46–2. Continue and expedite the translation and distribution of service training manuals to the military services of Latin America.

Assigned to: Defense
Target Date: Continuing

19. National Security Council Progress Report[1]

Washington, September 11, 1957.

PROGRESS REPORT ON LATIN AMERICA (NSC 5613/1, SEPTEMBER 25, 1956)

(Period Covered: September 25, 1956 through September 11, 1957)

A. Summary of Operating Progress in Relation to Major NSC Objectives

1. *Summary Evaluations.* While there have been some setbacks and problems, reasonable progress has been made toward accomplishing basic policy objectives, though in some respects necessarily on a long-range basis.

a. *Inter-American Solidarity.* The other American republics remain essentially friendly toward the United States and have continued on the whole to support major US world policies, particularly in the UN. The Organization of American States (OAS) took effective action to preserve the peace in Central America in connection with a flare-up of a Nicaragua-Honduras boundary dispute.

b. *Economic Development.* US programs have sought to encourage the growth of sturdy, self-reliant economies based on the free enterprise system. Despite some progress, factors such as excessive nationalism, statism, corruption and inefficiency, political instability and the generally low levels of education, make this a slow and very long-range effort.

c. *Soviet and Communist Influence.* The Soviet Bloc, with its attention diverted to Hungarian and Middle Eastern problems, has not increased its influence in the area, and local communists, though vocal and still having a potential for making trouble, generally have been held in check. Progress on overseas internal security programs is detailed in Annex A, para. 3.

d. *Raw Materials.* In present circumstances production of and access to the materials essential to US security remain adequate.

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[1] Source: Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5613 Series. Secret. A covering title sheet and an undated transmittal memorandum from OCB Acting Executive Officer Roy M. Melbourne to Lay are not printed. The OCB Working Group on Latin America initiated preparation of this progress report, the first on NSC 5613/1, during the summer of 1957, and forwarded a draft to the Board Assistants under date of July 24. At its meeting on August 23, the Board Assistants reviewed and revised this draft, noting alternative positions concerning an estimate of country military force levels, and also ICA's problem in programming assistance for Latin America in light of an apparent inconsistency in paragraphs 31–33 of the policy paper. The July 24 draft was referred back to the Working Group, which prepared a new draft dated August 27. The Board Assistants considered this new draft on September 6, and after proposing a few additional changes, concurred in its submission to the OCB. On September 11, the OCB agreed to incorporate a new paragraph 8b(2) in Section B, Major Operating Problems portion of the report, and concurred in its transmission to the NSC. The NSC noted the Progress Report at its 338th meeting on October 2. (Memorandum of discussion at the 338th NSC meeting, October 3, 1957; Eisenhower Library, Whitman File, NSC Records)

e. *Military.* The Latin American countries continue willing to participate in and support measures to defend the hemisphere. Their capabilities in this regard are confined generally to the maintenance of internal security and individual territorial integrity and a limited naval and air capability for protection of Inter-American maritime traffic.

f. *Political Development.* Little progress has been evident in the development of stable political systems along democratic representative lines, due mainly to political and economic immaturity and to some extent to deliberate communist and nationalist agitation.

2. *Need for Policy Review.* In view of the above, review of US Policy Toward Latin America (NSC 5613/1) is not recommended at this time. The OCB, however, has undertaken a study of the problems created by varying interpretations of the scope of military assistance policy which might require NSC attention at some time in the future.

B. Major Operating Problems or Difficulties Facing the United States

3. There are at present no critical or strategic problems or difficulties which are major threats to US security or which seem likely to cause changes in the generally satisfactory status of US relations with the area. Nevertheless, there are a very large number and variety of major problems and difficulties (detailed below) involved in maintaining currently achieved objectives and in progressing toward unachieved long-range objectives, as well as potentially dangerous situations in selected countries. These are being attacked in accordance with the special operating guidance and the courses of action concurred in by the OCB.

4. *Political*

a. *Political instability,* especially in Argentina, Haiti, Cuba, Guatemala (see Annex B), Bolivia and Honduras, represents a threat to US interests. It places a premium on implementation of the courses of action which promote a broad basis of understanding and support of our world policies in spite of changes in governments. It also underscores the wisdom of continued long-range US efforts on many fronts for an evolution toward political stability.

b. *Charge that US Supports Dictatorships.* Continued US adherence to the policy of non-intervention in the internal affairs of Latin American countries including dictatorships, has strengthened the view of liberal circles in Latin America and in the United States that this Government favors dictators. For example, the process of investigating the disappearance last December in the Dominican Republic of a young American pilot, and his possible relationship to the disappearance of a prominent critic of the Dominican government, has been greatly complicated by pressures brought to bear on the Government in favor of an open anti-Trujillo policy.

c. *Labor; Management.* In general, the involvement of organized labor in politics, a dearth of trained union leadership, the prevalence of class feeling, the inadequacy of basic education and technical

training, the backwardness of management, and the general low standard of living hampered the carrying out of the agreed courses of action. Although the communists in general remained numerically weak throughout the area, they enjoyed some successes in their efforts to infiltrate and influence the labor movement. They were particularly active in Argentina, Bolivia, Chile, El Salvador, Honduras, Peru, and Uruguay. In some countries nationalistic sensitivities, heightened by communist influences, tended to obstruct the Inter-American Regional Organization of Workers (commonly known by its Spanish initials ORIT) and AFL–CIO campaign to extend sound, democratic trade unionism throughout the area. This organizing campaign, which has been generally successful over the last 10 years, was largely at a pause during the period under review. The situation was mainly accounted for by internal rivalries, by the domestic situation in a number of Latin American countries and by a wait required for the results of an appraisal trip taken by the new Director of Organization of the International Confederation of Free Trade Unions (ICFTU), in company with leading ORIT and AFL–CIO officers, to a number of countries. The prospects indicated that a harmonization of relations between leading labor groups within ICFTU and between ORIT and ICFTU would soon permit resumption of ORIT's campaign. Concerted plans by a number of international trade secretariats include an organizing campaign throughout the area. With respect to efforts to stimulate interest among the Latin American universities in establishing courses on management and on labor relations it was not easy to find qualified US professors with a command of the Spanish language and as yet only a small beginning in this direction has been made.

d. *Overseas Internal Security Programs.* There is a danger that US programs to strengthen the internal security forces of the area, which are often used as political instruments, may provide grounds for a belief that the United States has abandoned the principle of non-intervention and has committed itself to the preservation of the status quo through repression of the political opposition, including non-communist groups. In the development of overseas internal security programs requiring the assignment of police technicians to the field the basic anti-communist objective of the program must be strictly observed. To meet the continuing problem of the repressive actions of many police forces in the area, OISP programs include emphasis on training and reorientation to encourage their use to protect individual rights.

5. *Communism and Relations with the Soviet Bloc*

a. *Soviet-Communist Influence.* Although the Soviet Bloc offensive in Latin America has gained no net ground during the period, due in part to Hungarian and Middle Eastern developments, local communist activities and continued Soviet Bloc interest in the area indicate that it may intensify at any time. The over-all estimate of Communist Party membership in Latin America remained fairly constant, downward revisions of estimates in several countries being largely offset by a significant increase in Argentine Party membership from 35,000 two years ago to an estimated 65,000. Capabilities of Latin American communist parties as a rule are greater than actual num-

bers suggest. In recent months anti-US propaganda has been intensified, particularly on the questions of disarmament and atomic fall-out resulting from nuclear tests. These issues and others prejudicial to US interests are being promoted energetically by Communist fronts throughout the area. Through its 18 resident diplomatic missions and consular posts (17 when Peru finally closes the Czech legation there for subversion) in eight Latin American countries, the Bloc has supported these local activities and has continued its economic and cultural propaganda at a high level. Travel of trade, cultural, and sports groups to and from the Bloc has remained extensive. A significant development was the increased attention given to the area by Communist China in the form of propaganda, visiting trade and cultural delegations and invitations to Latin Americans to visit Peiping. Several Latin American communist parties have pointed to the Chinese party as a model to be emulated. The possibility still exists that the Bloc may supplement its current offers of markets for non-strategic surplus commodities with offers to sell arms or provide economic and technical assistance, e.g., to Argentine, Brazilian, and Mexican government petroleum monopolies. Bloc efforts to achieve respectability and expanded influence must continue to be countered through a wide range of activities designed to convince the peoples and governments of Latin America that their interests will best be served through continued close relations with the United States.

b. *East-West Trade.* Because Latin American countries attempted to place trade with the Bloc on a multilateral basis and to use up credits accumulated under earlier trading arrangements, and because export surpluses became less burdensome, the total volume of trade with the Bloc decreased in 1956 as compared with the previous year. Substantially all this trade was conducted by Argentina, Brazil, Chile, Colombia, Cuba, Mexico, Peru, Uruguay, and Venezuela. Preliminary data reveal that Latin American imports from the Bloc were $126 million, or 1.7 per cent of the total, as compared with $153 million or 2.2 per cent in 1955. Latin American exports to the Bloc in 1956 amounted to about $104 million or 1.3 per cent of total exports, as against $182 million or 2.3 per cent in 1955. Despite decreases in trade with the Bloc in 1956 and declining stocks of surplus products (now largely limited to Argentine hides and Uruguayan wool), Argentina, Brazil and Uruguay continue to work toward developing commercial relationships with Bloc countries as a means to diversify their foreign economic ties. They hope to retain outlets for possible future surpluses and to secure some needed capital equipment. Of importance in these efforts was Uruguay's recent attempt to develop trade with Communist China in negotiations for an Inter-Bank Payments Agreement in Montevideo and the subsequent visit of the Communist Chinese mission to Argentina and Brazil, with possible visits elsewhere in the area.

6. *Economic Development*

a. *General.* Essential to the achievement of long-range US objectives for the area is sustained economic development. Some of the obstacles to such development are:

(1) The slow rate of progress in creating conditions conducive to private capital investment in many sectors. For example, excessive nationalism in Brazil and Argentina continues to cause them to pay half a billion dollars a year for foreign oil while their own remains grossly under-developed, keeping them economically insecure and thus politically and socially vulnerable. Political instability, graft and corruption short-circuit the possible development of countries such as Haiti and Honduras.

(2) Insufficient managerial talent and technical skills limit the amount of capital that can be efficiently used.

(3) The political difficulties confronting governments attempting to undertake sound economic reform. For example, efforts at stabilization in Bolivia and Chile have been opposed by vocal and influential worker groups which believe their interests endangered, at least in the short run.

(4) Para. 21, NSC 5613/1, requires that the United States take the lead in achieving a high level of inter-American trade by reducing our trade restrictions. However, declining prices of lead and zinc and rising supplies of petroleum and tung oil have led producers to seek restrictions on US imports of these products. The Administration has recommended the imposition of excise taxes on imports of lead and zinc at prices lower than specified domestic price objectives, has recommended a system of voluntary restrictions on petroleum imports, and has issued a proclamation imposing restrictions on tung oil. These measures, if taken, will reduce the level of inter-American commerce and will adversely affect the economies of the producing countries (Mexico, Peru, Bolivia, Guatemala, Venezuela, Paraguay, and Argentina). Pressure for retaliatory action is to be expected.

b. *Latin American Pressure for More US Assistance.* There is a feeling throughout the Latin American countries that they are receiving a disproportionately small share of the total economic assistance effort of the United States. Latin Americans want some type of Latin American development fund or bank while the United States view is that no new international institution is required. Under the world-wide economic Development Loan Fund which has been authorized by the Congress and for which limited funds have been appropriated, the Latin American countries will be eligible for long term loans with an option to repay in local currencies. Also while Congress again authorized a special regional fund (Smathers Amendment to the Mutual Security Act of 1954) to provide an additional source for similar loans, no appropriation was made for such a regional fund although Congress earmarked $10 million from the $225 million world-wide Special Assistance appropriation to be used for Guatemala and also expressed the intention that not less than $20 million from that appropriation be used in Latin America. Present policy (Para. 24, NSC 5613/1) restricts soft loans to Latin America to meeting temporary conditions of emergency and requires that principal reliance be placed on private capital and on Ex-Im Bank, IBRD, IFC and PL 480 loans. It may be expected that the establishment of the Development Loan Fund will increase pressure from Latin America for long-term, low interest loans repayable in local currencies. It is not expected that the Development Loan Fund will be an impor-

tant source of additional financing for Latin America for two reasons: (a) higher priority needs of other areas; (b) in accordance with Para. 24, NSC 5613/1, the requirements of Latin America will continue to be met largely from private capital, Ex-Im Bank, IBRD and IFC sources, as well as from PL 480 assistance. To avoid misunderstandings and to overcome possibly heightened feelings of discrimination against Latin America, it is essential that the United States explain its policy to Latin American countries in a full and convincing manner. The financing of economic development was discussed at the OAS Buenos Aires Economic Conference which was held August 15–September 4, 1957.

7. *Curtailment of USIA Information Activities.* The budget request of $12.7 million for FY 1958 was the basis on which USIA projected its participation in advance interagency planning for Latin America. This was reduced to a tentative $7.8 million as compared with $9.4 million available in FY 1957 and $6.8 million in FY 1956. Rising costs in several countries, and the decision to protect long-term "assets" such as public relations contacts and Bi-National Centers, means a correspondingly greater shrinkage in funds available for other activities. An effort is being made to distribute the limited funds in such a way as to sustain strong efforts in a special priority group of about one-third of the countries. Of the remaining two-thirds, about one-half will be limited to concentrating on one or two special projects (such as counteracting successful communist penetration of a key labor organization) in addition to standard public relations contacts. In the remaining countries, USIA will carry out little more than a limited public relations function.

8. *Military.* Implementation of the changes in US military policy accomplished by NSC 5613/1 has been undertaken but will require continuing efforts to achieve general acceptance.

a. *Obtaining Base and Related Rights.* Current negotiations with Brazil for an Army communications station and three LORAN stations, and the military discussions stemming from the Fernando de Noronha agreement, are complicated by unjustifiable Brazilian requests for excessive military aid totalling an estimated $600 million to strengthen the defense of Northeastern Brazil based on Brazilian claims that they have assumed greater responsibilities for hemispheric defense. Panama must be persuaded to honor the treaty obligations under which the United States seeks radar sites for defense of the Canal. Despite lack of success to date, efforts must be continued through the Joint Mexico-United States Defense Commission to revise the Emergency Defense Plan as a basis for seeking agreement with Mexico on possible future extension of US air defense operations over her territory.

b. *Limiting LA Military Objectives and Equipment Purchases*

(1) More emphasis must be placed by all US officials in a position to do so on action to discourage Latin American governments from purchasing equipment in excess of their military

requirements and thus wasting resources which might better be devoted to economic development. This will be especially difficult in view of the increased availability of British, French and US obsolete military equipment no longer useful in accordance with new defense concepts. Some success was attained in this respect during the period, most notably by Admiral Radford during his South American visit. However, a major setback was the purchase by Brazil from the United Kingdom, despite US advice to the contrary, of an obsolete aircraft carrier at a cost of some $9 million which, when equipped with aircraft and refitted, could cost as much as $60 million. Brazil has requested such aircraft and refitting from the United States, and US refusal of the request which is contemplated may seriously affect the willingness of the Brazilian military to cooperate with the United States and may further complicate the base negotiations referred to above. In addition, Brazil's purchase of an aircraft carrier may stimulate other Latin American countries to make similar excessive military purchases.

(2) Questions have been raised by interested agencies concerning the extent to which certain portions of NSC 5613/1 (specifically paras. 31, 32(a) and (b), 33 and 34) are subject to varying interpretations, creating operating problems in the course of implementation of military assistance programs.[2] Such implementation has been delayed from time to time in an attempt to reach agreed positions concerning the consistency of proposed military assistance programs with the stated policy. The interested agencies will, through the OCB structure, in the light of these operating problems (a) seek to agree on an interpretation of the policy for future guidance of the operating agencies and[3] (b) provide therein, in the event of disagreement among the interested agencies in particular cases under such interpretation, that a cooperative agreement would be sought.

c. *Inter-American Military Relations.* Close relations with the Latin American military must be maintained for political as well as military reasons. Continued purchases by Latin American countries from European sources have tended to reduce the influence of US missions in the area. Efforts must be continued to discourage such purchases, and to provide on a competitive basis those items deemed necessary for military or political reasons. Recent Congressional authorization for a revolving fund to finance credit sales of needed military equipment should help resolve this problem.

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[2] For documentation, see Documents 20 ff.

[3] On September 26, Lay circulated to all holders of this progress report a memorandum from OCB Acting Executive Officer Melbourne, dated September 25, revising part (a) of the third sentence of subparagraph 8.b.(2). Prior to revision, part (a) read as follows: "(a) agree on an interpretation of the policy for future guidance, and". (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5613–Memoranda)

Note: The following area or regional NIEs are applicable to Latin America:

NIE 80/90–55, *Conditions and Trends in Latin America,* December 6, 1955[4]

NIE 80–57, *Political Stability in Central America and the Caribbean through 1958,* April 23, 1957[5]

Annex A

ADDITIONAL MAJOR DEVELOPMENTS NOT COVERED IN THE REPORT

1. *Progress in Carrying Out Commitments for Funds, Goods or Services, and Other Programs.* On the whole, US commitments to Latin America are being met. However, although legislation implementing those portions of the 1955 Treaty with Panama providing for construction of a bridge and for the return to Panama of certain land areas no longer required by the United States has been passed by Congress at this session and signed by the President, the United States will still be in default on the third item of implementation: establishment by Act of Congress of a uniform wage scale in the Canal Zone, the Senate-passed bill having however prospects of House passage at the next session. The difference between Ex-Im Bank loan authorizations and loan disbursements to Argentina, Brazil, and Chile as shown in the Financial Annex is due to slow progress by those countries in meeting technical conditions of the loan agreements. The cumulative total of funds programmed for grant military assistance to Latin America through FY 1957 was $270 million, divided among the twelve countries listed in the Financial Appendix to NSC 5613/1, and $217 million of this total is estimated to have been delivered through FY 1957. The cumulative total of funds programmed and obligated for economic assistance through FY 1957 was $118.0 million, of which $77.1 million is estimated to have been expended by the end of FY 1957. The cumulative total of funds programmed and obligated for technical assistance through FY 1957 (covering all countries except Argentina, with which an "umbrella" agreement was signed in June) was $234.9 million, of which $207.4 million is estimated to have been expended by the end of FY 1957. A PL 480 summary, listing countries, is contained in the Financial Annex. Fulbright agreements totalling $185 million with six countries (Ar-

[4] Document 6.
[5] Document 203.

gentina, Chile, Colombia, Ecuador, Paraguay, Peru) are being carried out on schedule. Four of these were concluded during the period, and an agreement is being negotiated with Brazil. Investment guaranty agreements have now been concluded with ten countries and negotiations are under way with Brazil. Over $500,000 in guaranties have been provided to US investors in two countries and some 23 guaranty applications are pending for investments in 7 countries, totalling approximately $38 million.

2. *New Commitments for Funds, Goods or Services.* The only formal determination in accordance with NSC Action 1550 during the period under review related to commitments requiring US funding arising out of proposals made by the US representative to the Inter-American Committee of Presidential Representatives. Fourteen proposals made to the Committee by the US representative in connection with the formulation of the agenda would result in an eventual annual increase in regular budgets of OAS of about $5.6 million of which the US share would be limited to approximately $3.8 million. In addition, there would be non-recurring costs to the United States of up to $40.5 million extending over a five-year period. The determination included special provisions differing from those applying to regular contributions to OAS agencies for three proposals involving special non-recurring activities, namely, malaria eradication, atomic energy, and a building fund for the Inter-American Institute of Agricultural Sciences. Under the Special Regional Fund (Smathers Amendment) loan agreements totalling $12.85 million in the fields of health, sanitation, education and resettlement were signed with seven countries during this period.

3. *Overseas Internal Security Programs* are in the process of active implementation in Bolivia, Brazil, Chile, Guatemala and Venezuela. Civil police missions have been assigned to Bolivia and Guatemala and have begun their preliminary work of training and orientation of the local internal security forces. A survey of security measures to protect oil-producing facilities of Venezuela has been completed under this program, and the only other recommendation in the Venezuelan program, namely, anti-communist intelligence training for the military, is in process of implementation by the Department of Defense. The Director General of the Chilean *carabineros* paid a highly successful visit to this country in compliance with the principal recommendation of the Chilean program. Virtually no progress has been made in the establishment of a centralized intelligence agency in Brazil, as recommended in the Brazilian program, although numerous high-level conversations have been held and the support of the President promised. Implementation of the Costa Rican internal security program has been suspended in view of the Embassy's evaluation that the political situation would not permit such a

program until after the elections scheduled for 1958. On the Embassy's recommendation, implementation of the militia portion of the Bolivia program has been suspended as politically counter-productive. A limited program of assistance to the Salvadoran police is being carried out and a preliminary survey of the civil police of Peru was completed even though there are no formal overseas internal security programs for these countries. It is estimated that some 24 participants from Chile, Colombia, Guatemala, and Paraguay received training in FY 1957.

4. *Additional developments during the period were:*

a. President Rojas Pinilla of Colombia was overthrown by a five-man military junta on May 10.

b. President Paul Magloire of Haiti was overthrown in December. Since then the Haitian scene has been marked by a series of political crises and outbreaks of violence.

c. The Honduran Chief of State Julio Lozano was overthrown in October 1956 and replaced by a military junta.

d. Venezuela and Argentina interrupted diplomatic relations in July as a result of the continued asylum offered the former Argentine dictator Peron by Venezuela. July 28 elections in Argentina to a constitutional convention resulted in majority control of the convention by parties supporting the present Government. Blank vote, largely Peronist in nature, totalled 25%, which together with the vote of the principal opposition parties about equalled the vote of the pro-Government parties.

e. Luis Somoza was elected and inaugurated in May as constitutional president of Nicaragua, succeeding without disorders to the position held by his father, Anastasio Somoza, who was assassinated.

f. The Secretary General of the Organization of Central American States (ODECA), Guillermo Trabanino, added greatly to his own and ODECA's prestige when he played a major role in December in bringing about a sharp improvement in the relations between Nicaragua and Costa Rica, between which serious trouble was only narrowly averted.

g. Towards the end of 1956 President Meany of the AFL–CIO with a party of other important US labor leaders visited Brazil, Uruguay, Argentina, Peru and Panama to meet labor leaders and government officials. The trip was everywhere a success from a public relations point of view and attracted considerable sympathetic notice for the US labor movement and ORIT in all the countries visited.

h. The Inter-American Federation of Mineworkers was created by a founding congress that met in Lima in April of this year. Its headquarters will be in Mexico City. The new organization was created largely through the efforts of the United Mine Workers of America assisted by ORIT.

i. Stabilization programs were initiated in Bolivia, Colombia and Paraguay. The United States provided technical and financial support to these as well as the continuing Chilean program.

j. The benefits accruing to Latin America from US direct private investment were highlighted during the period through the publica-

tion by the Department of Commerce of a survey, "The Role of Private Investments in the Latin American Economy," covering the year 1955, and its subsequent exploitation by the United States in the area.

k. A Department of Commerce trade mission, including private business members, visited numerous cities in Argentina and Peru. The mission spent about three weeks in each country and received extensive and favorable press coverage.

l. In June the IFC announced its first loan authorization, which was in the amount of $2 million to a Brazilian subsidiary of a West German electrical equipment manufacturing company.

m. After ten years or more of negotiations in each case, bilateral Civil Aviation Agreements were signed with Mexico and Colombia.

n. The Inter-American Atomic Energy Symposium held at Brookhaven in the middle of May was most successful and augured well for future cooperation at the scientific level within the Americas. Agreements for Cooperation in the Peaceful Uses of Atomic Energy were signed with Brazil (Power, 7/31/57), Ecuador (Research, 5/31/57), Nicaragua (Research, 6/11/57), and Peru (Power, 7/19/57), and will become effective on completion of certain legal or formal steps in this country and in the cooperating countries.

o. January 21 a long-sought agreement was signed with Brazil permitting the United States to establish a guided missile tracking facility on Fernando de Noronha Island.

p. A military understanding concerning the defense of strategic areas in Venezuela and the military forces required for this purpose, signed March 13, 1956, entered into force February 5, 1957. This involves, subject to annual review, potential credits totalling $180 million over a ten-year period.

q. The effort to draft a general economic agreement at the Buenos Aires Economic Conference was not successful, but there was issued a Declaration of the Conference which contains a series of general economic principles. Among the resolutions approved was one supporting the idea of a common market for Latin America and another authorizing a continued study of the Latin American desire for an inter-American development bank.

Financial Annex to Progress Report on Latin America

(In millions of dollars over $5 million. Up to $5 million shown in nearest tenth million.)

(Period Covered by Progress Report: September 25, 1956 through September 11, 1957)

EXPENDITURES AND DELIVERIES—CERTAIN U.S. ACTIVITIES

Activity	FY 1956	FY 1957 Est. Through 6/30/57	FY 1957 Est. Total	FY 1958 (Est. as of 7/24/57)
Military Assistance (Inc. construction & consumables (Direct Forces Support); excess stocks rehabilitation; packing, crating, handling, transportation; excess stocks supplied.)	27	39	39	31
Economic Assistance (Defense support or Development assistance.)	28	40	40	38
Technical Assistance[6]	27	29	29	33
Information Services	6.8	9.4	9.4	7.8
Educational Exchange	1.8[7]	2.4[7]	2.4[7]	3.15[7]
Total	90.6	119.8	119.8	112.95
MAP Sales of Military Equipment & Services	8	14	14	—[8]
MAP Offshore Procurement Payments (Defense expenditures entering into int'l balance of payments.)		NO	NE	
Other U.S. Govt. Payments (affecting int'l bal. of payments — mil. & civ. pay, construction, procurement of U.S. mil. supplies & equipment.)	88	91.6	91.6	96.8

[6] Includes technical cooperation program of OAS as well as bilateral programs. [Footnote in the source text.]

[7] Funds received from the Agricultural Trade Development and Assistance Act of 1954 not included: they are $.1 million for FY 1956, estimated $.6 million for FY 1957, estimated $1.4 million for FY 1958. [Footnote in the source text.]

[8] No reasonable basis for estimate. [Footnote in the source text.]

LOANS

LOANS BY	During Period 7/1/56 to 6/30/57			As of 6/30/57	
	Disbursements	Repayments	New Loans Authorized	Undisbursed Commitments	Outstanding Debt
IBRD	95	18	50	142	454
Ex-Im Bank	95	118	381	702	850
		See Attached page 4			

PUBLIC LAW 480 AGREEMENTS

Date	Title	Amount	Est. % Dels.	Major Commodities	Use of Local Currency or Other Comment
	I	See Attached	page 5		
	II	See Attached	page 6		

PIPELINE ANALYSIS, MUTUAL SECURITY PROGRAM
(In Millions of Dollars)

AREA-WIDE

Military Assistance

	Obligations	Expenditures	Carryover (at end of period)
Prior to FY 1956	212	151	61
FY 1956	13	27	47
FY 1957	45	39	53
FY 1958	27	31	49

Economic Assistance

Prior to FY 1956	22.6	8.9	13.7
FY 1956	44.2	28.3	29.6
FY 1957	51.2[9]	39.9	40.9
FY 1958	32.0[10]	38.4[10]	34.5

Technical Assistance

Prior to FY 1956	175.0	151.7	23.3
FY 1956	28.0	26.8	24.5
FY 1957	31.9[11]	28.9	27.5
FY 1958	36.5	33.3	30.7

[9] Includes $12.85 million Smathers Amendment loans. [Footnote in the source text.]

[10] Based on FY 1958 program presented to the Congress. [Footnote in the source text.]

[11] Excludes reprogramming of prior year funds. [Footnote in the source text.]

IBRD AND EX-IM BANK LOANS TO LATIN AMERICA BY COUNTRY
($Million)

	A. Loans by IBRD					B. Loans by Ex-Im Bank				
	7/1/56–6/30/57		As of 6/30/57			7/1/56–6/30/57		As of 6/30/57		
Country	D	R	N	U	O	D	R	N	U	O
Argentina	—	—	—	—	—	—	10.9	100.0	160.0	65.2
Bolivia	—	—	—	—	—	1.0	1.1	—	[12]	34.6
Brazil	9.2	3.6	—	4.0	151.1	38.5	64.7	193.4	259.3	416.4
Chile	8.2	1.2	15.0	20.1	25.1	1.1	8.0	43.7	46.8	58.4
Colombia	21.3	4.6	—	29.7	62.5	1.1	4.8	–0.4	[12]	20.5
Costa Rica	0.8	0.4	3.0	2.2	0.4	2.2	0.6	0.3	7.5	11.6
Cuba	—	—	—	—	—	4.8	[12]	–3.8[13]	1.4	20.8
Dom. Rep.	—	—	—	—	—	—	—	—	—	—
Ecuador	2.0	0.2	—	9.6	3.7	2.1	1.8	1.1	2.4	25.9
El Salvador	3.3	[12]	—	4.0	18.3	0.1	[12]	[12]	[12]	0.1
Guatemala	5.0	—	—	8.3	9.3	1.6	0.3	–0.3[14]	0.2	1.8
Haiti	0.1	0.4	—	2.5	–0.3[13]	1.4	0.3	—	3.1	27.1
Honduras	1.6	—	—	2.5	0.8	[12]	[12]	1.7	1.7	[12]
Mexico	20.4	2.9	—	7.7	115.1	13.7	18.6	28.4	100.3	114.4
Nicaragua	4.2	1.2	1.6	10.8	7.8	[12]	0.1	2.0	2.3	0.3
Panama	1.3	0.2	—	3.4	1.4	—	0.1	12.8	12.9	0.9
Paraguay	1.3	0.6	—	1.0	2.9	3.4	0.2	0.1	4.3	3.7
Peru	11.0	1.5	5.0	12.9	22.4	23.6	0.6	3.6	89.9	37.8
Uruguay	5.5	1.6	25.5	23.7	33.7	—	1.1	–2.6[14]	0.1	7.1
Venezuela	—	—	—	—	—	0.2	4.6	1.0	4.9	3.5
Misc. LA	—	—	—	—	—	0.1	[12]	[12]	4.4	0.1
Total	95.2	18.4	50.1	142.4	454.2	94.9	117.8	381.0	701.5	850.2

Key: D—Disbursements R—Repayments N—New Loans Authorized and Increased Authorizations U—Undisbursed Commitment O—Outstanding Debt

[12] Less than $50,000. [Footnote in the source text.]

[13] Represents replacement of Eximbank authorizations by advances by participants or net sales of securities by IBRD. [Footnote in the source text.]

[14] Represents cancellations. [Footnote in the source text.]

Public Law 480 Agreements—Title I

(Cumulative—millions of dollars—from beginning of Program thru June 30, 1957)

Date	Country	Amt.	Est.% Dels.	Major Commodities	Planned Use of Local Currency or Other Comment[15]
8/21/55	Argentina	25.3		Fats & oils	$ 17.7
4/25/55	"	5.8		" "	2.3
		31.1	90%		20.0
6/7/57	Bolivia	6.8	0%	Wheat & rice	5.4
12/31/56	Brazil	138.7		Wheat, Fats & oils,	117.9
11/16/55	"	41.5		& Tobacco	31.3
		180.2	29%		149.2
3/13/56	Chile	35.1		Wheat, Fats & oils	27.7
1/27/55	"	5.0		Cotton, & Dairy	4.0
		40.1	90%	Products	31.7
4/16/57	Colombia	13.1		Wheat, Cotton, &	12.2
2/20/55	"	11.6		Fats & oils	7.0
6/23/55	"	4.5			3.0
		29.2			22.2
2/15/57	Ecuador	4.1		Wheat, Fats & oils	3.2
0[*10*]/7/55	"	4.0			3.1
		8.1	50%		6.3
5/2/56	Paraguay	3.0	85%	Wheat, Fats & oils, Dairy Products	2.2
5/5/57	Peru	3.9		Wheat	2.8
5/7/56	"	2.8			2.0
2/7/55	"	8.6			6.2
		15.3	54%		11.0
Totals, Title I		313.8	47%[16]		248.0

[15] Planned use of foreign currency from the above contracts for loans for multilateral trade and economic development under Section 104g. Other planned use from the above contracts:

Sect. 104a—market development (all eight countries)	$ 6.7
Sect. 104b—purchase of strategic material (Brazil)	3.2
Sect. 104c—military procurement (Brazil, Chile, Colombia, Peru)	2.3
Sect. 104f—payment of US obligations (all eight countries)	45.5
Sect. 104h—international educational exchange (all eight countries)	5.1
Sect. 104i—translation and publication (Brazil)	0.6
Sect. 104j—information and education (Bolivia, Brazil, Colombia, Ecuador, Peru)	2.4
	$65.8

[Footnote in the source text.]

[16] Roughly $148.8. [Footnote in the source text.]

Public Law 480 Agreements—Title II

(Cumulative—millions of dollars—from beginning of Program thru June 30, 1957)

Date[17]	Country	Amt.	Est.% Dels.	Major Commodities	Use of Local Currency or Other Comment
12/13/54 1/27/55 3/30/55 4/18/55 6/30/55 9/14/56	Bolivia	$ 17.9	100%	Bread grains, Rice, Cotton	For economic development, especially in drought areas
12/16/55	British Honduras	.3	100%	Miscellaneous	None
11/9/55	Costa Rica	.2	100%	Miscellaneous	None
5/5/55 6/22/55 6/30/55 8/2/55	Guatemala	3.2	100%	Corn	For economic development, including highway repair and maintenance
Notes 10/15/55 10/21/54 10/22/54 6/30/55 1/9/57	Haiti	3.6	100%	Beans Rice	None
Notes 11/6/54 1/21/55	Honduras	.2	100%	Miscellaneous	None
Pres. Ltr. 10/24/55 11/30/56	Mexico	.2	100%	Corn	None
5/18/56 1/29/57 6/28/57	Peru	12.4	90%[18]	Bread grains Corn grains Milk	For public works project in drought area for work relief
Totals, Title II		$ 38.0	96.7%[19]		

[17] Date of Transfer Authorization unless specifically listed as Notes or Presidential letter. [Footnote in the source text.]

[18] $250,000 wheat and $1,000,000 corn and barley remaining to be shipped. [Footnote in the source text.]

[19] Roughly about $36.76 million. [Footnote in the source text.]

Annex B

SIGNIFICANCE TO U.S. POLICY OF THE ASSASSINATION OF THE PRESIDENT OF GUATEMALA

On the night of July 26, 1957 President Carlos Castillo Armas was shot and killed in his residence in Guatemala City by a palace guard who committed suicide immediately afterward. The Guatemalan Government announced that the assassin was a pro-communist who had somehow managed to enter the Presidential Guards last June 1. The guard's diary has helped to establish him as a communist, but there is no evidence linking the act to any widespread communist or other movement. According to present information, the various Guatemalan exile groups were not directly involved in the assassination. Although investigations are still continuing, it appears that the assassination was committed by a lone communist fanatic.

A state of siege—martial law—was immediately proclaimed (it was lifted on August 22), and the Congress summoned to the Presidency on an interim basis Luis Arturo Gonzales Lopez who under the Constitution was "First Presidential designee". Constitutionally, elections must be called within four months (these have been set for October 20). During the week following the assassination there were many indications that the country faced a period of serious political instability, and for a time it seemed likely that a military junta might assume power. This possibility still exists, but more recent developments suggest that Guatemala may still be able to remain on the precarious constitutional path to a stable civilian government. The Minister of Defense, Colonel Juan Francisco Oliva, remains in apparent control of the Army which is the most important force in Guatemala.

Colonel Oliva has made an emphatic public statement that he will not be a candidate for the Presidency and that his greatest ambition is not to be President but to defend the Constitution. Oliva has told our Ambassador that a committee headed by him met to suggest an acceptable presidential candidate. With Army concurrence this committee decided that the candidate should be a civilian, Lic. Miguel Ortiz Passarelli, President of the Supreme Court, and his candidacy has been announced and supported by the predominating Movimiento Democratico Nacional (MDN) Party.

If Ortiz receives the full backing of the Army he will probably be elected for the six-year term. Although, as a civilian, his freedom of action would be limited by the need for close consultation with the Army and political forces of the country, this arrangement might

prove to be the best that could be expected in such a potentially explosive situation.

President Gonzalez, Oliva and other leading public figures have declared their intention of continuing the policies of Castillo Armas and the close and cordial relationships with the U.S. which existed under the previous administration. The Director of USOM has already had an interview with President Gonzalez in which the latter expressed his gratitude for the aid received and appreciation of programs under way. Both the Department and the Embassy have been assured by the Guatemalans that Castillo's policies will be continued. The Guatemalans have also stressed the need for continuing U.S. economic aid.

The most unsettling fact at this time appears to be the reported attempted intervention of the Government of the Dominican Republic in the internal affairs of Guatemala. It is presumed that the Dominicans are interested in promoting an extreme rightist type of regime similar to theirs, which would be a means for Trujillo to avoid becoming isolated as a dictator in the area. The Dominican efforts apparently are directed toward espousing and perhaps helping finance the candidacy of Colonel Enrique Oliva—half-brother of the Minister of Defense—or in his stead another extreme rightist friend of Enrique Oliva. These reports of Dominican involvement have caused us considerable concern because of the unsettling effect they have had or could have on the current tenuous Guatemalan situation. The scene is further complicated by the Presidential aspirations of persons outside of Guatemala, such as the Ambassador to the United States, Colonel Jose Luis Cruz Salazar, the Ambassador to Salvador, Col. Enrique Peralta Azurdia, and Ydigoras Fuentes, the Ambassador to Colombia.

There is no evidence of increased communist influence since the assassination or of a threat from the extreme leftist elements. Apart from the Dominican development, there are no indications at the present time that the successor to President Gonzalez would be a person with whom we could not work for the furtherance of U.S. interests and objectives in Guatemala. If constitutional processes can be followed and the Army and other more important political factions can agree on a candidate, it may be possible to preserve the stability which Guatemala so badly needs and which is threatened by the myriad jealousies and aspirations which have emerged following Castillo's death. Stability and constitutionality would do much to enhance Guatemala's own prestige and do much to remove the "U.S. installed" label which had been given to the Castillo regime. Attempts will, of course, be made to obtain U.S. support for one candidate or another.

Guatemalan relations with neighboring states seem to have remained on an even keel. The assassination has caused several of them to adopt more strict security measures and control of exiles.

The statements of ex-Presidents Arbenz and Arevelo[20] of praise for the assassin have not been well received in the Hemisphere and have further pointed up their communist ties.

The OISP program in Guatemala is under way, and we do not anticipate at this time that the change in administration will affect it insofar as U.S. objectives are concerned. Three U.S. advisers (an investigation specialist, a police adviser, and a border patrol expert on temporary detail) are now on duty in Guatemala, and a training specialist is to go down soon. A number of senior Guatemalan security officials have received training in the United States.

The specialists who are now in Guatemala have not been engaged in training activities which would have a bearing on the selection of the members of the Presidential Guard. A specialist had been selected to go to Guatemala early in July 1957 to help establish a presidential security force, but his departure was delayed pending medical clearance which was not granted. A replacement specialist arrived in Guatemala September 9, 1957.

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[20] Juan José Arévalo Bermejo, President of Guatemala, 1945–1951.

UNITED STATES POLICY REGARDING HEMISPHERE DEFENSE; PROVISION OF ARMAMENTS AND MILITARY ASSISTANCE TO OTHER AMERICAN REPUBLICS[1]

20. Memorandum Prepared by the Special Assistant for Inter-American Military Affairs, Office of Regional American Affairs (Spencer)[2]

Washington, January 25, 1955.

Several Latin American countries have requested, or are planning to request, rather substantial amounts of U.S. military equipment for purchase on credit. Requests which have been approved and those now pending are itemized in the attached list. Some of the problems raised by these requests are discussed below.

Credit Over a Three-Year Period

The Mutual Security Act of 1954[3] authorizes the sale of military equipment to foreign countries on credit terms over a three-year period. In making military equipment available for sale to foreign governments under this authority, each Service Department uses funds obtained from the Congress for the procurement of military equipment needed by that Service to meet its own requirements for equipment. Since these procurement funds are relatively large, and the probable amount of credit requested by Latin American countries during any one year will be relatively small, it is possible that the Pentagon will be able to underwrite the sale on credit of a considerable amount of military equipment to Latin American countries. Nevertheless, if we are to avoid the risk of the Pentagon one day informing us that it has reached the limit of funds it is prepared to use in supporting Latin American credit sales—a decision which might place us in the position of being unable to sell equipment to

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 116 ff.

[2] Source: Department of State, Central Files, 720.5–MSP/1–2555. Confidential. Addressed to Sparks, Jamison, Atwood, and Newbegin.

[3] For text of the Act (Public Law 665), approved August 26, 1954, see 68 Stat. 832.

certain Latin American countries on the same terms previously offered to other Latin American countries—we must have a firm figure from the Pentagon indicating the total amount of money it is prepared to spend each year on Latin America as a whole, plus some indication as to how the Pentagon plans to apportion the money among individual countries.

In addition to the problem posed by a possible limitation of funds available for underwriting credit sales, we are confronted with the fact that only a very few Latin American countries are capable of assuming obligations for the purchase of military equipment without jeopardizing, proportionately, their financial ability: (1) to meet outstanding loan obligations and redress unfavorable dollar balances; and (2) to undertake worthwhile economic projects for the improvement of their political and economic stability. In many Latin American countries, economic stability would appear to be a prime U.S. security objective, as important to the security of the U.S. as the provision of military equipment. The Pentagon is of the opinion, however, that Latin American countries are determined to buy military equipment, irrespective of their economic situation—if not from us, then from European sources—and that it therefore behooves the U.S. to make equipment available on easy terms in the interest of standardization. The Pentagon argues that Latin American procurement of non-standard equipment jeopardizes U.S. military interests on several counts: (1) non-standard equipment probably would be useless in time of war because it could not be maintained with spare parts produced in the U.S.; (2) as Latin American countries procure significant quantities of non-standard equipment, they have less need for U.S. military training missions and are tempted to replace them with missions from countries from which they buy equipment; (3) our failure to offer U.S. equipment on terms competitive with European suppliers creates Latin American ill-will, provoking the charge of U.S. neglect, particularly since U.S. military training missions, U.S. military representatives on the Inter-American Defense Board and U.S. military officials visiting Latin America have for years promoted the doctrine that standardization is important to the security of the hemisphere, to the security of Latin American countries, and to the security of the United States.

Long-Term Credit

The Congress has specified in the Mutual Security Act of 1954 that at least $200 million of the total MDAP funds appropriated for worldwide grant economic and military assistance be expended in the form of foreign loans, rather than as straight grant assistance. In view of the relatively small size of the Latin American grant assistance program (approximately $100 million has been appropriated for

the program over a three-year period for apportionment among ten countries), it would be politically unfeasible to request Latin American countries to pay for any part of the small amount of grant assistance we have promised to provide them to date. Consideration might be given, however, to expanding the Latin American program by means of loan assistance. The Pentagon has in fact indicated its interest in an eight or ten year loan to Peru for the construction of two submarines having a total value of about $15 million.

In applying the long-term credit authority, we encounter difficulties similar to those implicit in the three-year credit authority. First, in order to obtain $15 million in MDAP funds for the Peruvian loan, the Pentagon would be willing to subtract the necessary funds from the amount of money now set aside for grant assistance programs in areas outside Latin America, but would be unwilling to subtract additional funds necessary to offer vessels on the same terms to Ecuador, Chile, Brazil and other countries. Secondly, the law requires that long-term loans be limited to those countries for whom grant assistance has been approved. Since we do not have bilateral military assistance agreements with three of the larger countries in Latin America—Venezuela, Argentina and Mexico—long-term loans to those countries would be illegal unless we found it desirable and possible to conclude bilateral agreements with them.

Alternatives

After we have ascertained the ceiling amount of Pentagon funds available for use in underwriting three-year credit sales, we have a choice of the following alternatives:

a. Approve credit only when we consider the other country to be a good credit risk for the amount requested, taking into account the country's outstanding loans, its dollar position and other economic indicators of its ability to pay. In rejecting a request, we would frankly inform the other government of the economic reasons underlying our negative decision. The disadvantage of this alternative is that Brazil, Ecuador, Chile and other countries would not qualify for credit to the same degree as Venezuela and Peru, yet the military objectives we seek in Brazil (base facilities) are presumably more important than military objectives we are seeking elsewhere in Latin America. Moreover, it would be politically difficult to maintain good relations with Ecuador if we should approve substantial amounts of credit to Peru but refuse substantial credit to the former country.

b. Approve loans to most Latin American countries on the ground that the U.S. military objective of standardization in Latin America should override economic considerations, such as ability to pay. I understand that FOA is providing substantial amounts of economic assistance, on a loan basis, to a number of countries outside Latin America, even though there is only a slight expectation that they will meet these obligations.

c. We could use the loan technique for expanding the present grant military assistance program. Since the U.S. military interests we are promoting in the program are more specific than standardization (equipment must be committed for hemisphere defense tasks developed unilaterally by our Joint Chiefs of Staff), we might find it justifiable to approve loans even to poorer countries, provided that the amounts and types of equipment in each case meet the strict program criteria established by the Joint Chiefs, that is, a determination that it is required for a specific hemisphere defense purpose. The procedure would be as follows: (1) using very liberal economic criteria, we would determine for the Pentagon the maximum credit obligation we believe each Latin American country should assume in the promotion of U.S. hemisphere defense objectives; (2) we would ask the Pentagon to use our financial yardstick as a guide in determining types and quantities of military equipment determined by the Joint Chiefs of Staff to be required by individual Latin American countries for the carrying out of specific hemisphere defense missions; (3) the equipment would be offered to the other countries on a loan basis provided they agreed to use it in preparing military units for such missions under a bilateral military assistance agreement.

Until the Pentagon is prepared to offer long-term credit to more than one Latin American country, it would appear undesirable for us to approve submarines for Peru on long-term credit at the present time. In this connection, it may be desirable to consider the advisability of obtaining funds and authority from the Congress for the provision of long-term credit to Latin American countries. The Pentagon is exploring the possibility of selling military equipment to Latin American countries for payment in local currency, and it may also be desirable for us to explore this possibility with a view to obtaining authorization from the Congress, if such authorization would be required.

Recommendation:

Mr. Nolting (S/MSA) is the Departmental authority on the subject of foreign military assistance. He is familiar with the legal techniques available for use in making assistance available to foreign countries and with the status of funds available for implementing such techniques. I recommend that he be invited to attend a meeting in Mr. Sparks's office this week for a discussion of the rather complicated problems set forth in this paper. The meeting would have the purpose of developing additional information and ideas which we require in order to prepare recommendations for Mr. Holland on this subject. I recommend that OSA, MID and AR be represented at such a meeting.

[Attachment]

Credit Approved to Date

Chile—$150,000 (military hospital equipment)
Uruguay—$68,325 (helicopters)
Peru—$6 million (aircraft with supplementary equipment)

Firm Pending Requests by LA Countries to FOA

Cuba—$1 million (aircraft)
Brazil—$1 million (aircraft)
Venezuela—$12 million (aircraft)

Other Requests Pending

Ecuador—$10 million (The Ecuadoran Defense Minister has informed our Embassy that Ecuador needs this amount of equipment but can pay for it only on installments of $1 million each year.)

Chile—$80 million (A report from U.S. military channel states that Chile has discussed with our Ambassador Chilean procurement of this amount of equipment on credit terms extending over a very long period of time.)

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21. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Hensel)[1]

Washington, April 1, 1955.

DEAR MR. HENSEL: I refer to my letter of November 15, 1954,[2] which requested information from the Department of Defense indicating the size and scope of the program of grant military assistance

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[1] Source: Department of State, Central Files, 720.5–MSP/4–155. Secret. An earlier version of this letter was attached to a memorandum from Holland to Murphy, dated March 23, summarizing the letter and recommending that Murphy sign it. (*Ibid.*, 720.5–MSP/3–2355) In a memorandum to Holland, dated March 29, however, Jamison informed the Assistant Secretary that Murphy's office had returned the proposed letter to Defense "with the comment that it would be preferable to delay its transmittal until we have had an opportunity to review Defense's reply to our letter of November 15, 1954." Jamison's memorandum reads further as follows: "Although Mr. Murphy's office indicated that the Defense reply was sent to Secretary Wilson for signature on March 24, it is now March 29 and we have yet to receive it. The attached letter raises new considerations not dependent upon a reply to the November

(Continued)

planned for Latin American countries during the next fiscal year. It is hoped that the information requested can be provided in the very near future, so that an agreed interdepartmental decision on the type of Latin American program to be proposed to the Congress can be reached prior to the anticipated commencement about April 15 of Congressional hearings on foreign military assistance legislation.

The program of grant assistance now being conducted for Latin American countries was developed on the initiative of the Department of Defense, which indicated to the Department of State and to the President, in letters of October 31, 1951[3] and December 5, 1951,[4] respectively, that it would be highly desirable from a military standpoint that designated Latin American countries make available specified military units for the performance of hemisphere defense missions in accordance with current United States military planning. According to the Department of Defense, the selected Latin American countries could, provided they were furnished adequate equipment and training, supply forces capable of executing such missions, which otherwise would necessitate the diversion of substantial United States forces to the area in time of war.

Latin American countries have been included in the program since 1951 only after a determination by the Defense Department and a finding by the President that defense plans required the other country to participate in missions important to the defense of the Western Hemisphere. Only in a minority of cases, limited to Honduras, Nicaragua, El Salvador and Guatemala, when the provision of grant assistance was considered essential in furtherance of specific United States objectives in the Central American area, has the State Department initiated a recommendation that the eligibility of the other country for grant assistance be established. Even in these cases, however, conformity with the overall hemisphere defense objectives has been established.

The Department of State believes that the Latin American grant assistance program should continue during the next fiscal year to be directly contingent upon the finding by the Defense Department of a United States military requirement for Latin American military

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(Continued)

15 letter, specifically that related to additional aid for Guatemala and the related suggestion regarding combat engineering battalions. It is therefore recommended that you call Mr. Murphy and urge that he sign the letter. You might indicate that we have previously received informal assurances from Defense that a reply to our letter would be forthcoming but that these promises have never materialized." A handwritten, unsigned notation on the memorandum indicates that the letter was sent back to Murphy. (*Ibid.*, 720.5–MSP/3–2955)

[2] *Foreign Relations*, 1952–1954, vol. IV, p. 176.

[3] Not printed, but see *ibid.*, 1951, vol. II, p. 1027.

[4] Printed as an enclosure to a letter from Defense to State, *ibid.*, p. 1032.

units capable of executing hemisphere defense missions, unless the most exceptional conditions, such as those now existing in Guatemala, dictate that assistance on a broader scale be provided. The views of this Department regarding the initiation of a program for Argentina, or increases in existing programs for other countries, as mentioned in the Department's letter of November 15, 1954, will be developed only on the basis of such a military finding.

In the exceptional instance of Guatemala, it is believed that the eligibility of that country for any grant assistance in addition to that agreed upon for an infantry battalion in the hemisphere defense program should be established by a Presidential finding, in accordance with Section 401 of the Mutual Security Act, that the provision of such assistance is important to the security of the United States. The question of additional military assistance for Guatemala is under consideration and may be the subject of a separate communication to the Defense Department.

The Government of Paraguay has requested grant military assistance necessary for the development of a combat engineering battalion for hemisphere defense. This request raises the question of whether the provision of grant assistance to Paraguay and perhaps other Latin American countries for the development of combat engineering battalions would be justified from the United States military point of view in terms of hemisphere defense planning. The Department of State would appreciate receiving the views of the Defense Department with regard to the advisability of providing this type of assistance, as part of the hemisphere defense program, to Paraguay, Guatemala, Bolivia, and especially to Colombia, which believes it should receive additional grant assistance necessary to perform a broader role in hemisphere defense, on the ground that Colombia was the only Latin American country which contributed military forces for active combat in Korea.[5]

Sincerely yours,

Robert Murphy[6]

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[5] A letter from Secretary of Defense Wilson to the Secretary of State, dated August 12, states that Wilson concurred in the views of the Joint Chiefs of Staff that the establishment of engineer battalions in any Latin American country was inadvisable from the military point of view. It also states, however, that the Department of Defense encouraged "assistance in the economic field, which would provide the economic development and maintenance of public works and roads which link their surface communications network." (Department of State, Central Files, 720.5–MSP/8–1255)

[6] Printed from a copy which bears this typed signature.

22. Memorandum on Substance of Discussions of Department of State–Joint Chiefs of Staff Meeting, the Pentagon, Washington, April 15, 1955, 11:30 a.m.[1]

[Here follows a list of those present (26) at the meeting. The Department of Defense was represented by 17 officers, the Department of State by 8, and the Central Intelligence Agency by 1. The ranking members of the Defense delegation were Admirals Radford and Carney and Generals Ridgway, Shepherd, and White. Murphy and MacArthur headed the State delegation.]

1. Military Aid Program in Latin America

Mr. Murphy inquired about the status of the reply to the Secretary of State's letter to the Secretary of Defense dated November 15 which raised various questions about the U.S. military aid program to Latin American countries.

Admiral Davis stated he understood this issue rested between Mr. Holland and Mr. Hensel who were in sharp disagreement on the subject. Mr. Holland believes we should not give weapons to the Latin American countries because they will fight each other. Mr. Hensel, on the other hand, feels the program should go forward in support of the relevant NSC decision. When Mr. Hensel raised this point, Mr. Holland, according to Admiral Davis, said in that case we would have to get the NSC decision changed.

Mr. Bowie stated that while he was not familiar with the details of this disagreement, he understood Mr. Holland did not object to the provision of military equipment but was concerned about the financial arrangements and feared that if the Latin American countries obtain the arms through long term credits these would prove too much of a burden for their economies. Admiral Radford interjected that the provision of credits seemed necessary since the equipment could not be supplied free out of military aid appropriations. Mr. Hensel has written to the Export-Import Bank asking if the Bank would extend credits for this purpose.

Mr. Bowie reiterated his opinion that Mr. Holland's concern was with the financial arrangements and that he preferred a three-year credit to a seven-year credit which apparently has been proposed.

Admiral Radford concluded this discussion by stating that the Joint Chiefs were not concerned with the financial aspect of the matter, that the issue rested with Hensel and Holland, and that the next move was up to Mr. Holland.

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[1] Source: Department of State, State–JCS Meetings: Lot 61 D 147. Top Secret. The source text bears the following notation: "State Draft. Not cleared with any of the participants."

[Here follows discussion of agenda items 2–4: "Military Cooperation between Yugoslavia and the Free World—Interim Report", "Middle East Defense", and "Financial Support, FEC".]

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23. Letter From the Deputy Assistant Secretary of Defense for International Security Affairs (Davis) to the Secretary of State[1]

Washington, April 20, 1955.

DEAR MR. SECRETARY: This letter is in reply to letters of 15 November 1954[2] and 1 April 1955 from your Department relating to the size and scope of the program of grant military assistance planned for Latin American countries during the next fiscal year.

In connection with the letter of 15 November 1954, the comments and recommendations of the Joint Chiefs of Staff are approved and reflected in the discussion below.

Argentina

a. The Joint Chiefs of Staff consider that it is militarily desirable to include Argentina in a more active role in plans for Western Hemisphere defense. Argentina occupies a strategic position with respect to the Straits of Magellan, particularly in the event of any closure of the Panama Canal. It also occupies a position of leadership among the South American countries and possesses a sizeable military establishment of its own. A military alignment with Argentina could contribute to hemispheric solidarity and could further the U.S. objectives of insuring the integrity of Latin America and the availability of raw materials therefrom, with a minimum employment of U.S. forces.

b. If, after consideration of world-wide MDAP commitments, the initiation of an aid program with Argentina is considered appropriate, the initial program should be on an austere basis. The Joint Chiefs of Staff consider that an aid program should in large part be based on the modernization and standardization of the Argentine military establishment. Equipment should be programmed on a long-

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[1] Source: Department of State, Central Files, 720.5–MSP/4–2055. Secret.

[2] See footnote 2, Document 21.

term selective basis and Argentina should be encouraged to purchase end items under reimbursable aid.

c. Should the State Department consider exploratory talks to be feasible and politically expedient at this time, it is recommended that a U.S. military survey be conducted in order to make detailed recommendations on the Argentine force objectives for hemisphere defense.

Brazil

The Joint Chiefs of Staff have recommended that the Brazilian forces to be supported under the MDA Program be augmented at this time by the addition of one airborne battalion combat team and one transport squadron. These forces will be entered in hemisphere defense force objectives. Support of the transport squadron will be conditioned upon Brazil's purchase of the aircraft, the rehabilitation thereof and the purchase of the initial increment of one year's spare parts. The remaining forces recommended for Brazil by the Joint Brazil-U.S. Military Commission will be considered in the next revision of hemisphere defense force objectives.

Colombia

Based upon the recommendations of the Joint Chiefs of Staff, the Secretary of Defense approved additional grant aid for Colombia, on 20 October 1954, in order to permit the Colombian infantry battalion to retain its U.S. furnished equipment. The battalion has been entered in hemisphere defense force objectives for Colombia. Annex "A" of the Bilateral Military Plan between the Government of Colombia and the U.S. was amended on 5 November 1954, to include the infantry battalion. (Copy of amendment is attached.)[3] However, it is understood by Colombia that the United States is under no obligation to provide any support for the battalion beyond the equipment and matériel transferred with the Colombian unit from Korea to Colombia. At this time there is no Western Hemisphere defense requirement for additional forces from Colombia.

Cuba

In a letter dated 27 December 1954 from the Assistant Secretary of Defense (ISA), addressed to the Special Assistant to the Secretary for Mutual Security Affairs, the Department of State was advised of the recommendations of the Joint Chiefs of Staff, approved by this office, with respect to Cuba.[4] From a military point of view, the

[3] Not printed.

[4] Not printed. (Department of State, Central Files, 737.5–MSP/12–2754)

Joint Chiefs of Staff reaffirm their position with respect to Cuba. Accordingly, the Department of Defense recommends that the Department of State approach the Government of Cuba to arrange for initiation of negotiations on amendment of the Bilateral Military Plan.

Ecuador

No additional forces under MDAP grant aid are contemplated at this time. To date, Ecuador has evidenced little capacity or future potential for manning and maintaining the MDAP units in being. There is increasing evidence that Ecuador is orienting itself toward the United States, and this trend should be encouraged by continued support of the MDAP units already there, and by continued quotas in U.S. Service Schools. It is considered desirable that Ecuador be furnished U.S. equipment on the same credit terms as offered Peru.

Peru

No additional units under MDAP are contemplated for Peru. MDAP forces in being should continue to be supported and quotas in U.S. Service Schools maintained. Peru is gradually modernizing her forces and furthering U.S. objectives of standardization by the purchase of end items in the United States.

Guatemala

In a letter dated 12 January 1955, the Department of State was advised of the views expressed by the Joint Chiefs of Staff and approved by this office,[5] that; a) political considerations will dictate the initiation of a Military Assistance Program for Guatemala as in the case of Honduras and Nicaragua; b) the specific tasks which Guatemala could perform in furtherance of a Western Hemisphere defense role would be comparable to those assigned Nicaragua and Honduras, and hence of negligible value; and c) the Department of State may wish to consider initiating a request that the President find that country eligible for grant military assistance under the provisions of Section 105(b)(4) of the Mutual Security Act of 1954. It is understood that this matter is under consideration by your Department. Your Department's letter of 1 April 1955 concerning Guatemala states that " . . . any grant assistance in addition to that agreed upon for an infantry battalion in the hemisphere defense program should be established by a Presidential finding, in accordance with Section 401 of the Mutual Security Act, that the provision of such assistance is important to the security of the United

[5] See vol. VII, Document 14.

States . . . ."[6] The Department of Defense strongly opposed the use of Section 401 on the basis that additional grant military assistance to Guatemala is unwarranted from a military point of view.

Paraguay

Pursuant to a Department of State letter of 18 February 1955[7] on the subject of military assistance to Paraguay, the views of the Joint Chiefs of Staff have been sought with regard to the desirability of developing a hemisphere defense task for Paraguay under the provisions of a bilateral military assistance agreement. A reply on this matter is expected to be forthcoming in the near future.

With respect to developing combat engineering battalions in certain Latin American countries, as outlined in the final paragraph of the 1 April 1955 letter from your Department, the views of this Department on additional assistance to Colombia and Guatemala are expressed above. However, the general question of supporting this type of unit in Latin American countries is being referred to the Joint Chiefs of Staff for comment.

As a general comment, the MDAP Grant Aid Program for Latin America should be continued on an austere basis. Latin American countries should continue to be encouraged to modernize their forces, including MDAP forces, by the purchase of equipment in the United States. To this end, suitable credit terms to the extent permitted by law should be offered in order to compete effectively with terms offered by other nations. The Department of Defense is currently considering modifications to existing legislation which would provide greater flexibility in the provision of military assistance on extended terms of repayment.

A.C. Davis
Vice Admiral U.S.N.

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[6] Ellipses within quotation marks are in the source text.
[7] Not printed. (Department of State, Central Files, 734.5–MSP/1–2155)

24. Memorandum From the Deputy Director of the Office of Regional American Affairs (Jamison) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, April 27, 1955.

SUBJECT

Defense Views on Latin American Military Assistance.

The principal purpose of our letter of November 15, to which the attached is a reply,[2] was to determine Defense's position on the military justification of adding to the Latin American military forces which have or are receiving U.S. grant aid, so that we might determine this Department's position on the question of whether any such additions should be made or whether our view should be that the existing program should gradually be closed out through the provision of maintenance and spare parts. In the letter of April 1, 1955 we proposed that Defense consider grant aid to create and maintain combat engineering battalions.

The only views contained in this letter which imply an increase in the forces being aided under the program are those related to:

(1) *Argentina.*

The JCS consider it "militarily desirable to include Argentina in a more active role in plans for Western Hemisphere defense", and, if we agree, recommend exploratory talks with Argentina, to be followed, presumably, by a survey to make detailed recommendations on the Argentine force objectives for hemisphere defense. Whatever the results of such a survey, however, they consider that any "initial program should be on an austere basis". They do not offer an approximate dollar figure, but it is obvious that they do not contemplate much grant aid for Argentina, particularly since it is stated that Argentina should be encouraged to purchase end items.

(2) *Brazil.*

Brazilian forces now receiving grant aid to be augmented by "one airborne battalion combat team and one transport squadron", the cost of the latter apparently to be borne entirely by Brazil. Although no figure is given, this would mean a relatively small increase in grant aid to Brazil.

(3) *Cuba.*

The JCS recommend implementation of a relatively small increase for Cuba in support of one infantry battalion, one fighter bomber squadron and one naval reconnaissance squadron previously

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[1] Source: Department of State, Central Files, 720.5–MSP/4–2055. Secret.

[2] Reference is to a copy of the April 20 letter, *supra.*

recommended by them. Since the Cubans already possess much of the basic equipment required for such units, this involves a relatively small sum.

No basis is found for increases in support to *Colombia, Ecuador, Guatemala* or *Peru.* The question of bringing *Paraguay* into the program and the closely related question of creating combat engineering battalions in certain Latin American countries are being referred to the JCS for study. With reference to *Guatemala,* the intimation in our April 1 letter that Section 401 of the Mutual Security Act might be used to provide grant aid in addition to that required for the infantry battalion already approved is rejected, for the reason that "additional grant military assistance to Guatemala is unwarranted from a military point of view". Since Section 401 requires that the President find that assistance is important to the security of the United States and not necessarily that it is warranted from a military point of view, the Defense position is not entirely pertinent.

It seems to me that the recommendations in this letter boil down to:

(a) That consideration be given to the initiation of conversations with Argentina aimed at bringing that government into closer alignment with the United States by working out with it a more active role in plans for hemisphere defense. Presumably whatever "Argentine force objectives" might be recommended would involve Argentina's agreeing to commit certain units to hemisphere defense. The only sweetening we might offer, and then only "after consideration of world-wide MDAP commitments", would be "austere" grant aid for modernization and standardization.

(b) Relatively slight increases in grant aid programs for Brazil and Cuba.

(c) Latin Americans to be encouraged to modernize their forces, including MDAP forces, by purchase of equipment in the United States, such purchase to be facilitated by "greater flexibility in the provision of military assistance *on extended terms of repayment.*" (Underscoring supplied).[3]

This certainly adds up to what Defense refers to as an "austere" basis for the Latin American grant aid program.

It is recommended that:

(1) We concur in the proposed increases for Brazil and Cuba, on the basis that funds are available or will be obtained from Congress. The current request to Congress for grant aid funds should include an amount adequate to cover these items plus the usual maintenance costs.

(2) We do not agree with the extension of long-term credit as a means of encouraging Latin American countries to purchase equipment in the United States, because extending such long-term credit

[3] Printed here in italics.

reduces Latin American capacity to borrow for sound economic development projects and for other reasons with which you are familiar. The improvement of Latin American armed forces required for hemisphere defense should be accomplished by their purchases for cash, on credit terms of not more than three years, or by grant aid.

(3) We keep prodding Defense to come up with a definitive view on the combat engineering battalion problem.

(4) We are sending to Ambassador Nufer the text of that portion of the Defense letter relating to Argentina, with a request for his views as to whether it offers a satisfactory basis to initiate the exploratory talks referred to. His attached letter[4] responding to a preliminary suggestion for conversations indicates that he feels that the amount of aid offered to Argentina should not be as small as that suggested in the Defense letter. We should await his views before deciding on the next step.

[4] Nufer's letter of April 20 was not found with the source text.

25. Letter From the Under Secretary of State (Hoover) to the Deputy Secretary of Defense (Anderson)[1]

Washington, June 9, 1955.

DEAR BOB: This memo has come to me from our Latin American Division.[2] I am in full accord with the conditions set forth therein and with the courses of action recommended.

[1] Source: Department of State, Central Files, 720.5–MSP/6–955. Secret.

[2] The memorandum, printed as an attachment, was originally drafted in ARA, apparently by Jamison, and forwarded to the Secretary under cover of a memorandum from Holland, dated June 3. In his covering memorandum, Holland requested the Secretary's approval of the courses of action recommended by ARA, and also stated that "it has proved increasingly difficult to obtain, in an adequate and timely manner, the views of the Department of Defense which are essential to reaching sound conclusions" on a number of problems concerning U.S. military relations with Latin American governments. In a memorandum of May 6 to Hoover, who had approved ARA's recommendations, Murphy wrote: "We have already, as you know, had this [question of the status of the military assistance program with Latin America] before the Joint Chiefs and so far have not got much in the way of clear-cut decisions. I think, however, if you discuss it with Bob [Anderson] that perhaps after that we could hope to develop some clarification with the Joint Chiefs of Staff." Both Holland's and Murphy's memoranda are attached to the source text.

I do hope you will have the opportunity to dig into it personally. After you have had a chance to do so, please telephone me so we can discuss what further steps may be indicated.[3]

Sincerely,

Herbert Hoover, Jr.

[Attachment]

MEMORANDUM

Unsatisfactory Status of Military Assistance Program with Latin America

(1) The Latin American Grant Aid Program

Grant military assistance, in the form of military equipment and training, is being provided to eleven Latin American countries and the provision of assistance to additional countries is under consideration. The Congress has appropriated to date about $118 million for the program, which was begun in 1951 on the initiative of the Defense Department.

The basic concept of this program is that certain countries which have a military capability should be helped to develop designated units of their armies, navies and air forces for employment in collective hemisphere defense missions in the event of war or grave emergency. According to the Defense Department, the use of effective Latin American units for such a purpose would minimize the diversion of U.S. military forces for the defense of the hemisphere.

The provision of assistance to a Latin American country is subject to the conclusion of a bilateral agreement in which the other Government agrees to make effective use of U.S. assistance for the purpose for which it is provided. A supplementary and secret bilateral military plan specifies the units eligible to receive U.S. assistance and describes the tasks for which they are to be developed and employed. The type of bilateral planning embodied in the agreements and plans is consistent with the planning recommended to the Governments of this hemisphere by the Inter-American Defense Board, ...

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[3] Attached to the source text is a handwritten note from Robert Sturgill of the Executive Secretariat to Norman Pearson, dated June 10, reporting that Hoover had handed this letter and its attachment to Secretary Anderson. It further states that "the two men discussed the possibility of setting up a State–Defense working group on this problem. No decision was taken." The note bears Holland's initials, indicating that he saw it.

(2) Problems which have Arisen in Connection with the Grant Aid Program

During the period in which the program has been in operation, a number of important problems have arisen. The most recent and urgent are whether it would be desirable to provide assistance to Argentina and whether we should increase the amount of assistance planned for Brazil and Colombia. It is necessary that the decisions made regarding these problems reflect the best military judgment available in the Defense Department, inasmuch as they will have an important effect upon our relations with the Governments concerned:

(a) *Argentina.* Argentina was omitted from the original program because of the then unsatisfactory state of U.S. relations with that Government. As a result of the greatly improved climate, President Perón has requested discussion of that country's role in hemisphere defense, an overture which may well mean that he would be prepared to agree to the terms of a grant aid agreement. It is doubtful, however, that Perón would agree to conclude such an agreement without U.S. assurances to provide assistance that would bear a reasonable relationship to that provided Brazil, which has received in the form of equipment and training roughly one-fourth of the approximately $118 million appropriated for the Latin American program. Defense has indicated that Argentina's defense role is important, but has not to date given us a statement of even the general dimensions of the program which it would approve. A clear-cut Defense position on this question is highly important.

(b) *Brazil.* Defense has requested us to obtain Brazilian agreement to rights necessary to place important U.S. military installations in Brazil. Preliminary discussions with Brazilian military officials have been authorized. In our view it is inevitable that increased military aid will either be a Brazilian condition for granting the rights desired or that such aid will greatly facilitate reaching agreement. Over a year ago, the Joint Brazil–U.S. Military Commission submitted to the Defense Department a recommendation, endorsed by the three U.S. flag officers representing the United States on the Commission, that Brazil be provided with additional grant assistance estimated at $50 million. Defense has made slight additions to the Brazilian program, but these are believed insufficient to assure Brazilian agreement to the establishment of the U.S. military facilities desired in Brazil.

(c) *Colombia.* Colombia has requested additional aid, including the large amount required to equip and train two infantry and one marine battalions. We have emphasized that Defense take special note of the Colombian contribution in the Korean conflict. The position taken by Defense formally to the Department on two occasions is that there is at this time no Western Hemisphere requirement for additional forces from Colombia. Defense has indicated that the Colombians are not using equipment already provided satisfactorily and are not likely to be able to support additional equipment in any volume.

Advised of the conclusive Defense position, the Colombians have sought the intervention on their behalf of Dr. Eisenhower, Amb. Lodge and Mr. Rockefeller, and have claimed support from such important Defense officials as General Ridgway and Admiral Carney.

(d) *Engineering Battalions.* Repeatedly the idea has been suggested that the military defense program in general should be revised to contemplate the establishment of engineering combat units in various countries in the hemisphere. The concept has been given considerable impetus by high-level Defense and other officials. The advantages of such a program are obvious. It would give otherwise idle soldiers something to do and would enable them to undertake road and bridge building programs which would be of great value and which otherwise could not be financed by the countries involved. We were informed in April that the JCS were studying this proposal, but no results have been made known to the Department.

(e) *The Sale of Military Equipment on Credit Terms.* The sale of military equipment to foreign governments on terms providing for repayment over a three year period, and under certain conditions over a longer period, is authorized by the Mutual Security Act of 1954. It is consistent with the NSC statement of policy on Latin America that this authority be used to promote arms standardization in Latin America. It is desirable, however, that the military equipment sold to Latin American countries on credit terms, particularly under long-term credit arrangements, bear a clear relationship to legitimate hemisphere defense requirements and objectives that provide the basis for the grant military assistance program. With regard to the extension of long-term credit, it is in the interest of the attainment of our over-all economic objective of encouraging Latin American countries to finance necessary economic development projects that there be imposed a specific limitation on the amount of such credit approved for countries in the area during any one year, but that the assurance be given that the amount specified will be available. Assurances are also required from the Defense Department that it will continue to finance three-year credit for the sale of military equipment to Latin American countries. Inability to finance credit for such countries as Colombia and Ecuador, having financed credit for Chile, Uruguay, Guatemala, Brazil, Cuba, Peru and Venezuela, would expose us to the charge of discrimination by the former countries.

(f) *Conflicting Defense Positions.* Specific or implied support has been given to additional aid to a number of countries, including Brazil and Colombia, by U.S. military representatives assigned to the field and by U.S. military officials during their frequent visits to Latin America. This has led to expectations on the part of the foreign governments which are proved false by eventual Defense decisions that such aid either is not warranted or infeasible. There are indications that incautious statements by high-level officers have abetted these expectations.

More serious is the attitude frequently taken by Defense officials that the Latin American program is essentially political rather than military, despite the fact that Defense originally proposed the program as a military requirement. Without under-estimating the political importance of inter-American military cooperation, we have,

with the exception of the aid granted to Central American countries in connection with efforts to remedy the Guatemala situation, insisted that the decisions to provide grant military assistance should be based upon a Defense determination of a military requirement. The often serious divergencies of view by Defense officials at varying levels on this question lead to confusion.

(g) *Lack of Military Evaluation of Success of the Program.* As indicated above, the grant aid program is based on the concept that the Latin American countries are capable of making effective use of grant assistance to develop military units which would be of tangible military benefit to U.S. armed forces engaged in hemisphere defense in the event of war or grave emergency. The program has been under way for almost four years. Conflicting reports have been received regarding the progress being made. To the best of our knowledge, no realistic study has been made to determine how many of the units which have received U.S. assistance are trained and equipped to the point where they could be used in hemisphere defense missions, or what needs to be done to make those which could not be so employed effective. Any valid assessment of the desirability of continuing or expanding the program in any direction should be based on the results of such a study.

(h) *Inability to Obtain Timely Defense Department Views.* The specific country problems described above were posed to Defense in a letter dated November 15, 1954, in order that adequate consideration could be given to them in relation to the new Mutual Security legislation. A renewed request for Defense positions on these points and the proposal relating to combat engineering battalions was made on April 1, 1955.

The reply received on April 20 was too late to be of value in relation to the FY 1956 Mutual Security legislation. It was ambiguous on the important question of possible aid to Argentina, and negative on Colombia and Brazil. It stated that the suggestion on engineering battalions was under study. Renewed informal efforts to obtain a clear-cut position on Argentina have been fruitless.

Conclusion:

The problems outlined above point to the conclusion that a thorough revaluation of our Defense relationship with the Latin American countries, particularly that involving the question of continued grant assistance, is essential. The crucial question is whether we move forward in the assumption that their military forces can be trained and equipped to join with our forces in collective hemisphere defense or whether we fall back on the assumption that the most we can expect of them is the maintenance of internal order and limited national defense. The answers to important questions in our relations with a number of the Latin American countries depend upon the answer to that question.

Recommended Courses of Action:

(1) That Defense be requested to undertake a review of the entire military aid picture in Latin America with particular reference to the following points:

(a) What needs to be done by ourselves and by the other countries in order to achieve the original objectives of the Latin American grant aid program, and what changes, if any, are desirable in those original objectives;

(b) Definitive answers to the following questions:

1. What is the size of the program contemplated for Argentina;

2. What increase, if any, is Defense prepared to make in the Colombian and Brazilian programs;

3. What is Defense's position with respect to the provision of grant assistance to Latin American countries for the development of engineering combat units;

4. Will Defense agree to condition the granting of long-term credit for the purchase of arms in this hemisphere upon commitment to hemisphere defense; agree to make available funds within a specified ceiling for meritorious requests; and agree to finance additional three-year credit for the sale of equipment?

(2) That Defense decisions on the above problems be cleared through the highest levels in Defense in order that we may avoid the possibility of changes as a result of political pressures from the other countries.

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26. Editorial Note

On June 29, Assistant Secretary Holland sent to Deputy Under Secretary Murphy a memorandum prepared in ARA containing a proposal for the loan of vessels from the United States Navy's inactive fleet to Latin American countries for use in performing hemisphere defense missions. In his covering memorandum, Holland stated that he "would very much appreciate having this proposal placed on the agenda of the meeting with the Joint Chiefs of Staff on July 1." (Department of State, Central Files, 720.5–MSP/6–2955) In a memorandum to Holland, dated June 30, Murphy replied in part as follows: "I do not think that the State–JCS meeting is the best place for initiating substantive business of this kind. Consequently, I would suggest that it be taken up with Defense by letter. Following

this, I see no reason why it should not be discussed in a subsequent State–JCS meeting." (*Ibid.*, 720.5–MSP/6–3055)

A proposed letter to Secretary of Defense Wilson was drafted in ARA by Robert M. Sayre on July 12, and sent for concurrence to Murphy and Frederick Nolting. In a memorandum to Acting Secretary Hoover, dated July 15, Nolting stated that he had initialed the draft letter, "but believe this proposition should be broached with Defense as a straight inquiry and should not be pressed as a political 'must' in the event Defense sees objections." He further commented that it was his understanding that ships in the Navy's "moth ball fleet" were not excess, but "were carefully selected for retention in order to fill the Navy mobilization needs in case of hostilities." In such an event, the argument contained in the letter that the loan of ships would strengthen the Inter-American Defense Plan "would not be valid." (*Ibid.*, 720.5–MSP/7–1555)

The draft letter was transmitted to the Acting Secretary under cover of a memorandum from Holland, dated July 18. In a memorandum dated July 19, Robert G. Barnes informed the Acting Secretary of Nolting's position and that Murphy had not concurred in Holland's memorandum and wanted to discuss it. (*Ibid.*, 720.5–MSP/7–1955) A memorandum from Barnes to Holland, dated July 26, reads in part as follows: "I understand that the Under Secretary feels we should not make a formal request at this level now but that you should continue to explore this question at the working level in Defense." (*Ibid.*, 720.5–MSP/7–2655)

On July 27, in a memorandum requesting his Staff Assistant, Norman Pearson, to have the proposed letter to Defense redrafted, Holland stated in part the following: "I think you are right in your conclusion that our draft of letter to Secretary Wilson on a loan of naval vessels does not meet Mr. Hoover's request that we merely say that the suggestion has come to our attention. He wanted us to give the impression that the idea had really originated somewhere in Defense and had come to our attention and that we were expressing our feeling that the idea merited consideration." (*Ibid.*, 720.5–MSP/7–2755) A revised draft of the letter was sent forward to the Secretary under cover of a memorandum from Holland, dated August 12. (*Ibid.*, 720.5–MSP/8–1255) This draft was not attached to the copy of Holland's memorandum in Department of State files, and no further documentation on the subject has been found dated prior to the letter sent on October 7, *infra*. The source text of the October 7 letter, however, bears drafting dates of July 29 and August 5, and presumably was the same as the one transmitted with the Holland memorandum of August 12.

27. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, October 7, 1955.

DEAR MR. GRAY: A suggestion has come to the attention of the Department of State on several occasions that consideration be given to lending, for a stated period of years, to those Latin American republics that maintain naval establishments, a limited number of naval vessels from the Naval Reserve Fleet to be used to perform Hemisphere defense missions. I am informed that this suggestion may have already received some consideration within the Department of the Navy and that that Department is sponsoring legislation to loan two submarines to Brazil. I understand that this suggestion arises out of the apparent dilemma of attempting to implement on the one hand the established policy of encouraging the Latin American military establishments to adopt standard United States equipment and training methods but on the other hand of having no United States naval vessels available to sell to Latin Americans to satisfy their requirements and being unable to compete with European prices on new construction.

Some of the reasons which have been advanced in support of this proposal are:

1. The transfer of such vessels would be consistent with the national policy of promoting standardization of military equipment in Latin America. It would act as a deterrent to the type of procurement now being undertaken by Venezuela, Ecuador and other countries which have placed orders with European shipbuilders for the construction of non-standard naval vessels having limited utility for Hemisphere defense and would be of questionable value in time of war because of the non-availability of replacement parts from the United States. Moreover, European procurement may stimulate the desire of Latin American governments for European naval missions technically competent to provide instruction in the repair and maintenance of European equipment.

2. Latin American countries capable of operating and maintaining naval vessels consider that they have a legitimate Hemisphere defense requirement for ships, and there would appear to be some military justification for this point of view. The military importance of the inter-American maritime routes is emphasized in the General Military Plan for the Defense of the American Continent, prepared

[1] Source: Department of State, Central Files, 720.5–MSP/10–755. Secret. Drafted by Sayre.

in 1951 by the Inter-American Defense Board as a result of United States military leadership and initiative, and approved by the United States and most Latin American countries.[2] The General Plan states: "In order that the war may be conducted with maximum efficiency, it is necessary to maintain the arsenal of the free world in full production. This emphasizes the strategic importance of the transportation of essential materials produced in the various countries of America, which, in large part, will be processed in the industrial centers of the United States." The General Plan further states that defense of the Hemisphere will include: "A coordinated defense action by all the American States, for the purpose of counteracting the efforts of enemy forces that may succeed in infiltrating into the Continent. The principal effort in this defense south of the Tropic of Cancer falls to the Latin American countries." It is reasonable to expect Latin American countries to note, on the one hand, that the United States military has endorsed a relatively large delegation of Hemisphere defense responsibility to them, and on the other hand, to note the exceedingly small amount of United States assistance provided them for Hemisphere defense, compared with the vast amount of United States assistance provided countries outside this Hemisphere.

3. The recent extension of $15 million in credit to Peru for the construction of submarines is virtually certain to stimulate Latin American countries maintaining navies to request credit for the procurement of vessels. In view of their poor economic condition, it would not appear possible, on economic grounds, to justify the extension of credit to most countries, including Brazil, Chile and Ecuador. Countries denied credit are certain to charge the United States with discrimination. The ill-will created by our inability to comply with Latin American requests for credit will adversely affect the whole range of our military relations with Latin America including the prestige and effectiveness of United States armed services missions in Latin America.

4. It would seem especially desirable and logical to consider the loan of naval vessels to Latin American countries, inasmuch as the naval assistance provided them to date in the grant aid program has been limited exclusively to assistance for the rehabilitation and repair of vessels and facilities which they possessed prior to the initiation of the program.

5. The vessels would not be lost to the Navy's mobilization reserve which has been the objection to the sale of naval vessels, but by lending the vessels they would still be available within the Hemisphere to the mobilization reserve and would at the same time

[2] See the editorial note, *Foreign Relations*, 1951, vol. II, p. 1028.

be providing certain Latin American navies with desirable and much needed training.

Because the proposal seems to me to have a great deal of merit, I wanted to bring it to your attention for consideration by your Department and I would appreciate receiving your views on it.

Sincerely yours,

Robert Murphy[3]

[3] Printed from a copy which bears this typed signature.

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28. Memorandum From the Director of the Office of Regional American Affairs (Cale) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, December 5, 1955.

SUBJECT

Military Problems for Discussion with Gordon Gray.

In accordance with your request, an appointment has been made for you to call on Gordon Gray at the Department of Defense (2E860, Pentagon) at 4:30 p.m. on Wednesday, December 7. It is suggested that you may like to have Mr. Sanders and Mr. Sayre accompany you.[2]

All of the problems listed in our enclosed memorandum of October 31 to you merit discussion with Mr. Gray. It may be, however, that time will not permit taking up all of these matters in one interview. We recommend that you concentrate, first, on the implementation of the grant assistance program and, second, on the question of credit. We consider these two problems to be the most important and most urgent ones.

Grant Assistance. The program is not being implemented as effectively as it might be in terms of our undertakings with the countries participating in the program. In addition, we have repeated requests from countries participating in the program for additional grant military assistance. This situation creates continuing problems in our overall relations with these countries. The problem of implementa-

[1] Source: Department of State, Central Files, 720.5–MSP/12–555. Secret. Drafted by Sanders.

[2] The proposed meeting between Holland and Gray did not take place until December 12; see *infra*.

tion consists of three major parts: one, adequate appropriations to implement the program; second, slow delivery of equipment and spare parts; and three, the need for replacing propeller aircraft with jets, if our Government is to continue to support air units in Latin America.

The Department of Defense has proposed a program of $46.5 millions for Latin America in fiscal year 1957. Of this amount some $31 millions is for maintenance support and training, approximately $4 [millions] for rehabilitation of two submarines to be loaned to Brazil and a patrol boat for Haiti, and about $11 millions for direct forces support programs in Colombia, Ecuador and Peru. The amount proposed, if approved, should make it possible for Defense to fulfill our commitments under the program and carry it out in a creditable manner. While making it clear that the requested amount should be justified primarily on a military basis, it is suggested that you assure Mr. Gray of our support for the program on a political basis.

The slow delivery of equipment may be explained in part by the very limited funds which have been made available for the program, but this does not explain the fact that some of [the] equipment and spares programmed in fiscal years 1952–54 remains to be delivered. Of the equipment and spare parts originally programmed in fiscal years 1952–1954, according to reports of the three armed services as of September 30, 1955, about 25 percent remains to be delivered, as indicated in the following table: (Figures do not add because of rounding).

	Total Equipment and Spare Parts	Delivered	Remaining
Army	$43.6	$37.8	$ 5.7
Navy	$22.4	$14.9	$ 7.5
Air Force	$25.2	$16.2	$ 8.1
	$91.0	$69.0	$22.0

The current status report of the Air Force indicated that the latter expects to deliver the remaining equipment by the first half of 1956. The Navy, however, is not planning to deliver the equipment now programmed until the last half of 1957—that is, almost two years from now. The Army plans delivery after December 1957—that is, more than two years from now.

The grant assistance program in Uruguay is an example of our slow deliveries. The agreement with Uruguay was signed in 1952, but presently scheduled deliveries (six aircraft by the Navy; complete equipment for an anti-aircraft battalion by the Army) are not to be made until 1957 or 1958. It is true that deliveries to Uruguay were held up in part because the Uruguayan Government did not

agree to the necessary arrangements for the assignment of US Navy personnel until late in 1954 and US Army personnel until June 1955. But further protracted delay on our part would not appear desirable. In view of the arrival in Washington this month of both the President and Chief of Naval Operations of Uruguay, and the expected arrival of the Chief of Staff of the Uruguayan Army in January, it would be particularly desirable if something could be done to assure these officials that the equipment will be delivered promptly.

Under agreements with eight Latin American countries we have undertaken to help develop ten fighter squadrons, which we have equipped with F–47 and F–51 (propeller) aircraft but which can no longer be supported because of the non-availability of spare parts. The impossibility of continuing support was probably foreseen in 1953, when delivery of the planes began, and it may well be questioned why the obsolete aircraft was ever programmed in the first place. In the case of Colombia, the entire squadron of planes we provided is already grounded. All the other squadrons we have equipped will, it seems, likewise be non-operational within a year.

Whether the MDA air units in Latin America are needed for hemispheric defense and should, therefore, be converted to jets is, of course, a military decision. There are, however, political reasons for supporting an affirmative decision. Providing US jets on a grant basis would: (a) discourage the continued sale in Latin America of European jets, which contributes to "arms races" and also to the possible introduction of European military missions; (b) help keep the politically influential Latin American military oriented toward the US; (c) give us greater control over the employment of Latin American air force because the US would be the source of spare parts for the planes; (d) help satisfy the repeated Latin American demands for additional grant assistance; and (e) help free Latin American funds, which are now going into the purchase of European jets, for economic development projects.

On the subject of credit, we do not yet have an agreed position with E and ICA, although U/MSA and ARA are generally in accord. It is suggested, therefore, that on our proposals for credit you make clear that you are speaking only for ARA.

Attached is a brief memorandum on grant assistance and credit.[3] A second attached memorandum describes ARA's credit proposals in more detail.[4] It is thought that you may wish to give copies of these memoranda to Mr. Gray.

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[3] Dated December 5, 1955, entitled "Military Grant Aid and Credit Operations in Latin America," not printed.

[4] Dated November 3, 1955, not printed.

29. Memorandum of a Conversation, the Pentagon, Washington, December 12, 1955[1]

SUBJECT

United States Military Programs in Latin America

PARTICIPANTS

Henry F. Holland, Assistant Secretary of State
Gordon Gray, Assistant Secretary of Defense
E. Perkins McGuire, Deputy Assistant Secretary of Defense
Terry B. Sanders, Jr., ARA/AR
Robert M. Sayre, ARA/AR

In Mr. Gray's office this morning the following topics concerning Latin America were discussed: the need for clarity of military policy, grant military assistance, credit sales of military equipment, and the Argentine request to purchase armaments.

Clarity of Policy. Mr. Holland said that due to the lack of clarity in our Government's policy on military relations with Latin America the Latin Americans do not know what to expect from us. The lack of clarity in policy leads to three major consequences: (a) The Latin Americans make many unreasonable proposals and requests, and when we turn them down, the result is bad feelings toward us. (b) We make conflicting decisions. (c) We are less able effectively to discourage arms races in Latin America. Mr. Gray agreed, if our policy is not clear, that it should be made clear.

Grant Military Assistance. Mr. Holland stated that he is not certain that the Department of Defense has a firm conviction on whether the grant program exists for military or for political reasons. Mr. Gray replied that in his opinion the justification for the program is political. Mr. Holland thought that Defense considers the program a political one, and he was inclined to attribute a lower political significance to the program than does the Department of Defense. He emphasized that the decision that the program is required for military reasons is one for Defense to make, although he had some doubt of its military value because he questioned whether Latin American military units would make any significant military contribution in the event of war. He urged that the programs in each of the countries be evaluated to determine whether a military requirement exists for the units established.

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[1] Source: Department of State, Central Files, 720.5–MSP/12–1255. Secret. Drafted by Sanders.

If Defense should conclude that all or part of the program is political, Mr. Holland pointed out, he would like to discuss further with Defense the implementation and the future of the program. If, on the other hand, Defense maintains that the program is military, then the program should be implemented effectively. At present the program does not appear to be achieving any real military purpose. For example, a squadron of planes that we gave Colombia is grounded for lack of maintenance. In all cases of ineffective implementation it should be determined whether the fault lies with the Latin Americans or with us, and corrective measures should be taken. He suspected that we would find most of the problem is failure of the Latin Americans to meet their obligations.

Mr. Holland expressed our understanding in ARA that the Bureau of the Budget had eliminated Defense's request of $46.5 million for the grant program in Latin America during FY 1957, and Mr. Sayre said that he had been informed by an officer in Defense that the Defense Department had already asked the Bureau of the Budget to restore this item. Mr. McGuire, however, denied that the cut had been made or that Defense had had to make a request for restoration.

Credit. Mr. Holland stated his concern that credit sales of military equipment provide the Latin American countries with armaments that they actually do not need and diminish their capacity for economic development borrowing. Furthermore, our military credit operations in Latin America are confused and are haphazardly implemented. Mr. Gray agreed with the latter, saying that "we don't know where we are going" and that a generally accepted policy is necessary.

Argentina. Mr. Gray said that recently the Chargé and the Naval Attaché of the Argentine Embassy had called on him to press for equipment for a marine regiment. The Argentines were not particularly interested in the carrier and the planes which their Government had previously asked to buy. The Chargé and the Naval Attaché urged that the requested equipment for the regiment be sold as excess so that it could be priced at 10 percent of its original cost. Mr. Gray told them that this would not legally be possible, although he subsequently learned from Defense's legal advisers that under discretionary authority given the President in the Mutual Security Act MSP funds could be used to finance the difference between the cost ($5.7 million) and the amount ($2 million) which the Argentines are prepared to pay. Mr. Holland stated that the Argentine Government will in the near future ask the United States for economic assistance and that, in his opinion, it should be suggested to the Argentines that they evaluate their request for military purchases in the light of their needs for economic assistance and consolidate their

military and economic requests into one package. Mr. Holland also said that during his recent visit to Buenos Aires he learned in conversations with Vice President Rojas and President Aramburu that while the former strongly urges the sale of United States military equipment to Argentina, the President is decidedly opposed to Argentina's buying this equipment. Admiral Rojas, in command of the Argentine Navy, was largely responsible for the successful overthrow of Perón and is probably the strongest political figure in Argentina at the present time.

Conclusion. Mr. Holland left with Mr. Gray a memorandum[2] describing ARA's views on the importance of effectively implementing the grant program and another memorandum[3] on ARA's proposals for a credit program. Mr. Holland emphasized that the credit proposals represent only ARA's views since they have not been cleared with other interested offices in the State Department. Mr. Gray directed Mr. McGuire to go over the memoranda and to telephone Mr. Holland to give him (a) the Defense Department's appraisal of whether the grant program is considered to be political or military and (b) the Defense Department's views on credit operations.

After leaving the above meeting with Mr. Gray and Mr. McGuire, Mr. Holland instructed that ARA should begin at once to consider what our position on the grant program will be if Defense determines that the program in some or all of the participating Latin American countries[4] Should be primarily justified on political grounds.

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[2] This memorandum is dated December 5, 1955 and was prepared as an attachment to another memorandum of the same date, from Mr. Cale to Mr. Holland, "Military Problems for Discussion with Gordon Gray". [Footnote in the source text.]

[3] This memorandum is dated November 3, 1955, "Provision of Credit to Latin American Countries for the Purchase of Military Equipment and Services under the Mutual Security Act of 1954 as Amended". [Footnote in the source text.]

[4] These countries are Brazil, Uruguay, Chile, Peru, Ecuador, Colombia, Nicaragua, Honduras, Guatemala, Cuba, Haiti, Dominican Republic. [Footnote in the source text.]

30. Memorandum of a Conversation, Department of State, Washington, January 30, 1956[1]

SUBJECT

Military Grant and Reimbursable Assistance in Latin America

PARTICIPANTS

ARA—Mr. Lyon
AR—Mr. Sanders
AR—Mr. Sayre

Defense:
Mr. McGuire
Brig. Gen. Wilson
Col. Hanford
Commander Kitteridge

The conversation was exploratory to identify the problems, and conclusions reached were tentative.

The following are the principal conclusions:

1. The Defense Department representatives stated that the force bases established by the Joint Chiefs of Staff for the grant program stand, that there is no reason to recommend a change, and that the present force bases constitute a military need for Hemisphere defense.

2. The Defense representatives know of no reason to believe that United States implementation of the grant aid agreements is not satisfactory to realize the objective of the grant program.

3. Col. Hanford said that Defense would be interested in agreements with Mexico and Argentina, if it should become possible to obtain them.

4. Gen. Wilson stated that the Department of Defense is recommending changes in the Mutual Security legislation to improve performance in reimbursable assistance, but these changes were not specified.

5. The Department of State representatives pointed out that total Latin American purchases of military equipment are small and asked if it would not be possible to find in the mutual defense assistance funds the small annual amount (some $20 to $30 million) needed to finance an orderly credit program. Mr. McGuire said that this would not be possible since all of the grant funds are needed for other purposes.

6. The Department of State representatives described the need of having a well managed reimbursable assistance program for the

[1] Source: Department of State, Central Files, 720.5/3–756. Secret. Drafted by Sanders. Attached to a memorandum from Sanders to Lyon, dated March 7. In the memorandum, Sanders stated that although a State–Defense "working group" to resolve outstanding problems in U.S. military relations with Latin America, as suggested by Hoover in July 1955, had not been formally established, such a group "in effect" did exist. It resulted from the meeting between Holland and Gray on December 12, 1955 (see Document 29), at which Gray asked McGuire to coordinate Defense's views and then to contact Holland. To Sanders' knowledge, however, McGuire had not conveyed Defense's position, and this meeting of January 30 was a followup. (Department of State, Central Files, 720.5/3–756)

main purpose of encouraging the Latin Americans to channel their military expenditures into useful lines for Hemisphere defense and internal security. Mr. McGuire expressed the belief that it might be desirable to request the Joint Chiefs of Staff to specify the forces most needed in each country for Hemisphere defense and internal security, beyond the force bases for the grant program. General Wilson knew of no reason why this could not be done. The objective would be for the United States to limit credit and cash sales to the development of these forces which would be in addition to those coming under the grant program.

It was agreed that another meeting should be held soon, and Col. Hanford stated that he would contact the Department of State representatives to suggest a time.

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31. Memorandum on Substance of Discussions of Department of State–Joint Chiefs of Staff Meeting, the Pentagon, Washington, March 30, 1956, 11:30 a.m.[1]

[Here follows a list of those present (27); a review of the SEATO meeting held at Karachi, March 6–8, and Secretary Dulles' subsequent trip to a number of Asian capitals; and discussion of agenda items 1 and 2, "Japanese Fishing Problem" and "Chiang Kai-shek's Desire for Chinese Military Visits to the U.S." The Department of Defense was represented by 17 officers, the Department of State by 8, the National Security Council by 1, and the Central Intelligence Agency by 1. The ranking members of the Defense delegation were Admirals Radford and Burke and Generals Taylor and Twining. Murphy and MacArthur headed the State delegation.]

3. Loan of Naval Vessels to Latin America

Mr. Murphy recalled his letter to Defense Assistant Secretary Gray last October[2] on this subject and said that we had not yet received a reply. Admiral Radford replied that the JCS were very much aware of the problem and were still "struggling with it". Admiral Burke took up the discussion and said that the whole problem was under active study. A bill to provide $25 million for

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[1] Source: Department of State, State–JCS Meetings: Lot 61 D 147. Top Secret. The source text bears the following notation: "State Draft. Not cleared with any of participants."

[2] Document 27.

use in making submarines, submarine vessels and other smaller ships available to Latin America is under consideration but has been difficult to work out. Admiral Burke expressed the desire to act on the Latin American area as a whole rather than to deal on a national basis; otherwise, there will be constant comparisons between the different countries and complaints of favoritism. Admiral Radford continued that the Latin Americans are not seeking grant aid so much but would like to buy equipment if they could get it on long term loans (similar to the British method of doing business in this field). We badly need a way to finance such sales, but we should not try to do it from military aid funds and tie them up on a long term basis. Admiral Radford stressed the United States' interest in having American equipment in Latin American navies and emphasized that one of the benefits would be that spare parts would come from here. Admiral Burke said that he hoped his staff study would be ready soon and would like the opportunity to discuss it in rough draft with the State Department before formally proposing it. Mr. Murphy and Mr. Lyon offered full cooperation to Admiral Burke.

With respect to the Brazilian desire for an aircraft carrier, Admiral Radford commented that one carrier as such would be of no practical naval use and that under present naval planning a carrier is merely one component of a larger complex.

[Here follows discussion of agenda items 4 and 5, "The Situation in Iceland" and "Other Matters".]

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32. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon)[1]

Washington, April 13, 1956.

SUBJECT

Military Programs in Latin America

I have read and returned to you your memorandum of April 11 on our military programs in Latin America.[2] Attached also is the draft of letter from Murphy to Gray.[3]

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[1] Source: Department of State, Central Files, 720.5/4–1156. Secret.

[2] This memorandum concerned the status of efforts by the Bureau of Inter-American Affairs to obtain from the Department of Defense a clear definition of U.S. military objectives in Latin America. In the memorandum, Lyon informed Holland

I do not have the feeling after reading these papers that we ourselves have a view as to the outer limits of the problem. Perhaps I am wrong but I have the feeling that we are going directly to components of the larger problem, and without defining their relationship to each other.

I had hoped that this larger problem could be defined in conferences with Defense. Apparently that is not possible. Perhaps the best substitute is to submit to Defense our ideas as to the broad definition of the problem. That might lead them to agree or disagree with our views, thus eventually leading us to an accord.

The statement I have in mind could be worded somewhat as follows:

General Objectives of Military Programs in Latin America

1. Hemispheric defense
2. Internal security
3. To orient military leaders in Latin American governments toward the United States (dubious)
4. Standardization of Latin American military equipment (dubious)

If the foregoing are in fact the objectives of our military programs, then we should define the hemisphere defense units that we actually want from the Latin American countries and we should define the nature of the units required for internal security. It would also be necessary to reach a decision once and for all on how much military aid we are going to put out for political purposes, and how far we are willing to go to try to outbid other suppliers in order to achieve standardization of arms.

Programs to Achieve Objectives of Military Aid

1. Grant military assistance
2. Sales of military equipment for credit
3. Sales of military equipment for cash
4. U. S. military missions in Latin America
5. Training of Latin American officers in the United States

Under each of these programs, and any others that I have overlooked, we should analyze just what contribution it is expected

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that the Navy had completed a draft comprehensive naval program for Latin America and was prepared to refer it to the Joint Chiefs of Staff for approval, but that the Army and Air Force were still working on a review of their respective programs. He also stated the following: "We are still endeavoring to obtain agreement on criteria and procedures, and to find a source of funds for credit sales of military equipment. E has few objections to our proposals on how a credit program should be operated if we are to have a credit program. E is opposed to the established policy calling for credit and is therefore unwilling to agree to proposals designed to obtain an assured source of funds as Mr. Hoover requested in May 1955." (*Ibid.*)

[3] Not found with the source text, but see Document 35.

to make toward the achievement of the basic objectives, we should also analyze just what can be done under each program. In other words, what credit terms will be offered; what prices on cash sales; what delivery dates; what types of equipment will be made available; whether ships are to be lent, and all the other things that we have been bickering about for the past two years.

Some such presentation as that outlined very roughly above would enable us to consider each of the different things that we have had under discussion, but to do it with some idea of the relationship of that problem to all of the other problems that we have under discussion, and an idea of its relationship to the basic objectives that we are trying to achieve.

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33. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of the Treasury (Overby)[1]

Washington, April 16, 1956.

DEAR ANDY: Herb[2] appreciates your sending him a copy of Secretary Humphrey's letter of February 14 to Mr. Dodge on United States sales of military equipment to Latin America.[3] In Herb's absence, I am replying.

This is an important problem. We would welcome Mr. Dodge's study and would be happy to be of any possible assistance to him.

In the event that our views would be useful, I am attaching a memorandum, setting forth some of the main facts, as we know them, and outlining some suggestions.

We believe that an earnest effort should be made to reverse, if possible, the distinctly unfavorable trend in our military relations with Latin America.

United States military grants and sales to Latin America contribute to good political relations and are highly important to some of our country's military requirements, namely bases and the safeguarding of lines of communications and strategic raw material sources. Deserting the military field in Latin America and leaving it to the Europeans would undoubtedly have most undesirable reper-

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[1] Source: Eisenhower Library, CFEP Chairman Records. Confidential.
[2] Under Secretary Hoover.
[3] Not found in Department of State files, but see Document 35.

cussions on both the military and political interests of the United States in the area.

At the same time we, too, are concerned over the effect which Latin American military purchases, both in the United States and in Europe, have on economic development in the Hemisphere. The question is whether our refusing to sell military equipment would actually enhance the prospects for the area's economic growth.

On the basis of the evidence available, we believe that the President's military policy objectives in Latin America are sound and that our total interests, as well as those of the Latin Americans, are best served by our continuing a reimbursable assistance program, including a modest amount of credit. But we do believe that the operation of the program should be improved. The program should be redesigned so that equipment sales, especially those on credit, would be more closely related to actual Latin American requirements for internal security and Hemisphere defense. This would link reimbursable assistance with the objective of military grant aid and should improve the possibility of our influencing the Latin Americans to minimize expenditures and eliminate waste in their limited financial resources.

I am sending copies of this letter and its enclosure to Mr. Dodge[4] and to Mr. Gordon Gray, Department of Defense.

Sincerely yours,

Robert Murphy[5]

[Enclosure]

MEMORANDUM[6]

March 7, 1956.

SUBJECT

Latin America: United States Military Assistance and Economic Development

The basic problem in Latin America is economic development in the broad sense of that term: the development of Latin American material and human resources along socially desirable lines to raise

[4] A copy of the letter from Murphy to Joseph M. Dodge, Special Assistant to the President, was attached to the source text. Murphy expressed the hope that Dodge would review the problem of Latin American purchases of military equipment, since the Department of State considered it an important one.

[5] See vol. VII, Document 14.

[6] Regarding this memorandum, see paragraph 3 of Document 36.

living standards and to promote political and economic stability. Reducing non-essential Latin American military expenditures, just as eliminating any other waste of resources, and diverting the savings into economic development is desirable.

Latin American Arms Expenditures

The statistics available do not suggest that aggregate military expenditures in Latin America, as related to economic development, are high as compared with similar areas of the world. Average Latin American expenditures for military purposes during the period 1949–1955 were apparently about 2.9 percent of the region's gross national product. Only one other major area, South Asia, devoted a lower percentage of gross national product to the military (2.5 percent). During the same period military equipment was some 2 percent of total Latin American commodity imports. In the six year period military expenditures in Latin America have been fairly constant at an average of about 20 percent of total government budgets in the region.

Generalizations about Latin America as a whole are not, however, always valid in individual countries because of the varying country levels of military outlays. The most exaggerated expenditures in individual cases are usually associated with rivalries within the Hemisphere. The most significant case of this kind is Ecuador, due to tension between that country and its neighbor, Peru. Military outlays in Ecuador, as a percentage of total government expenditures, rose from 16.7 percent in 1949 to 29.4 percent in 1955.

The total of all accomplished and pending United States cash and credit sales of military equipment to Latin America from 1950 to the present is about $115.2 million, according to the available statistics.

During 1950–1955 total United States reimbursable military assistance to Latin America was approximately $88.4 million, including $53.1 million in cash sales and $35.3 million in credit transactions (first authorized by the Mutual Security Act of 1954).

Pending requests for cash purchases are approximately $19.4 million (principally Venezuela, $8.5 million; and Argentina, $6.3 million). Of 17 Latin American countries making cash purchases, the principal buyers by far have been Peru, Brazil, Venezuela, Chile, Colombia, and Argentina.

In addition to the credit actually extended by the United States, $7.1 million in credit has been approved by the United States but not yet finally accepted by the Latin American countries concerned. There is pending in the United States Government one credit request (Paraguay, $300,000). Of the total of all credit ($42.7 million: $35.3

plus $7.1 million plus $.3 million), about half is for Peru ($21.5 million), and most of the rest is for Venezuela ($18 million).

It is difficult for a variety of reasons to assign a realistic dollar value to Latin American purchases of European military equipment (cash, credit, and barter), but it appears that the total of those purchases during 1950–1955 was about $275 million, as compared with $88.4 million in purchases and $112 million in grants from the United States. Venezuela alone accounted for about half of the total of purchases from Europe. Of the European matériel purchased, 66 percent was naval vessels, and 20 percent was aircraft. The result, for example, has been that some 88 percent of the jet aircraft in Latin America is British.

Accurate data are not available, but Latin America is apparently turning increasingly to Europe for military equipment.

The Objectives of United States Policy

The central objective of United States policy should be the minimization of Latin America's military expenditures and the channeling of those expenditures into the development of effective military units that are actually required for Hemisphere defense and internal security.

This is largely a problem of educating the Latin Americans, and for this purpose the grant assistance program, providing both matériel and training, and the training afforded by our military missions in Latin America should play a key role in the accomplishment of the objective.

The United States has 35 separate service training missions in Latin America, as compared with 4 missions at the beginning of the Second World War. One measure of the importance of the successful operation of the present missions is the difficulties caused to the United States by the predominance of German, Italian, and other European missions in Latin America at the time of the last war.

The purpose of military grant assistance, which is provided to the 12 Latin American countries with which the United States has Mutual Defense Assistance Agreements, is to develop modest Latin American forces for Hemisphere defense missions. These agreements supplement a Resolution of the Foreign Ministers (1951), urging the American Republics to orient their military preparation toward the common defense of the Hemisphere, rather than to confine such preparation to the defense of their individual countries. The agreements also supplement and help to enhance the successful implementation of the Inter-American Treaty of Reciprocal Assistance (1947), which embodies the proposition that an attack on one American state is an attack on all.

A workable but small reimbursable assistance program, properly administered, should also play an important, perhaps the most important, role in the achievement of minimum Latin American military expenditures and channeling them into useful purposes.

The Deterioration of United States–Latin American Military Relations

Military relations between the United States and Latin America are deteriorating, and for this reason United States influence on the extent and direction of Latin American military development is being undermined.

The dissatisfaction of some Latin American countries with the size of grant military assistance (1/3 of 1 percent of U.S. total FY 1957 budget request for foreign military grants) and with the form of that aid (most notably, propeller fighter planes for which spare parts are no longer manufactured) accounts in part for the deterioration of military relations.

A more important reason, however, is the failure of the United States in reimbursable military assistance. Despite policy requirements that such assistance be provided to promote standardization of equipment, doctrine, and training and to keep foreign military missions out of Latin America, United States reimbursable assistance operations are haphazard and, for the most part, ineffective.

The unsolved problems in reimbursable assistance are: (a) the lack of a reliable source of modest funds (perhaps as little as $20–$30 million per year) to finance credit, including credit for new procurement, (b) the lack of agreed United States criteria to govern credit and cash sales, (c) the non-availability of or the long "lead-time" for delivery of equipment, and (d) high United States prices.

The Executive Branch is currently requesting an amendment to the Mutual Security Act to provide for more realistic pricing. The Department of Defense is also reviewing Latin America's priority in the light of the small requirements for equipment in the area.

In one case MDAP funds were used to finance credit (Peru, $15 million). All of the rest of credit transactions have been financed by the Air Force, except in minor cases by the Army and Navy. No solution to the problem of funds to finance credit is yet in sight.

There is no criterion for cash and credit sales other than general compliance with the requirements of Section 106 of the Mutual Security Act (mainly by virtue of the Latin American countries having adhered to the Rio Treaty).

The more favorable prices, credit, and other terms offered by European suppliers are resulting in an apparent increase in non-United States equipment in Latin America. This problem is further complicated by the recent offers of a low cost Soviet bloc military equipment. While the Latin American countries (except Guatemala)

thus far have not acquired any communist matériel, Argentina has recently purchased 60 non-military planes from Czechoslovakia. No European military missions have yet been established, but in some cases European technicians have been imported along with the equipment to perform functions similar to those of a mission. European equipment in Latin America impairs the effectiveness of our missions, subverts the United States standardization objective, vitiates the orderly military development of Latin America, and militates against the general pro-United States orientation which we seek in Latin America.

Conclusion: Suggestions

Actual military requirements for Hemisphere defense should continue to be the determining factor in the military grant program. Implementation of United States undertakings should be thoroughly creditable. If, for example, there should be no further military requirement for the 10 fighter squadrons which we have equipped with planes that are obsolete and can no longer be supplied with spare parts, we should tell the Latin Americans so and gradually terminate the portions of the military agreements calling for the squadrons as Hemisphere defense units. If, on the other hand, there is a genuine military requirement for the squadrons, the United States should either make every effort to modernize them with serviceable aircraft or should encourage the Latin Americans to re-equip them through United States reimbursable assistance.

Cash and credit sales of equipment are more important in our military relations with Latin America than is the matériel provided on a grant basis. The Latin Americans buy far more equipment than we have given them in the past, or are likely to give them in the future. Also, it is presumably contemplated that the maintenance of Hemisphere defense units, which we have helped to equip, will eventually be taken over entirely by the Latin American countries, and for this to be accomplished reimbursable United States assistance is essential.

The adverse effect that European sales of military equipment to Latin America have on United States interests can ultimately be countered only through effective United States reimbursable assistance. There is no known reason to believe that more competitive United States prices and availabilities of equipment would generate a net increase in total Latin American expenditures for military procurement. On the contrary, the reduction of those expenditures might result. In general, the Latin Americans prefer United States equipment, and if it were more readily available, they would, in all likelihood, buy less in Europe. There have been repeated cases in which Latin American countries have first sought equipment in the

United States and have turned to Europe only as a last resort, buying more equipment and sometimes spending more in Europe than they would have spent if United States equipment had been available. Furthermore, while the initial per unit cost of European equipment is generally lower than similar United States equipment, the maintenance of European matériel is higher, so that in the long run the dependence on European suppliers is more costly to the Latin Americans. It goes without saying that if the United States sells the equipment, the United States is in a much better position to influence the amount and type of equipment the Latin Americans purchase and, by virtue of being the supplier of spare parts, to exercise some control over the use of the equipment.

For the rational implementation of reimbursable assistance it is first necessary to know what military units each country in Latin America in fact needs for internal security and for its contribution, if any, to Hemisphere defense. This information is not available. Once it were compiled by the Department of Defense, reimbursable assistance could supply the necessary equipment for the designated units. In brief, reimbursable assistance would then have a yardstick as well as a specific objective and would be an extension of the principle of our grant military aid to Latin America.

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34. Memorandum From Robert Sayre of the Office of Regional American Affairs to the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon)[1]

Washington, April 18, 1956.

SUBJECT

United States Military Relations with Latin America

In Mr. Holland's memorandum to you of April 13[2] he questions whether we in ARA have our objectives in the military field clearly in mind or whether we have not, in a proposed letter to Mr. Gray, discussed the programs in support of our objectives before defining our objectives.

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[1] Source: Department of State, Central Files, 720.5/4–1856. Secret. A handwritten notation on the source text indicates that Lyon sent it to Holland for his information.

[2] Document 32.

Our proposed letter to Defense was based on the assumption, possibly mistaken, that our objectives in the military field are those indicated in NSC 5432/1 and that what is required is a clear statement of what is needed to attain these objectives and how we propose to go about it. I would agree that they are not too clearly stated in NSC 5432/1, and maybe in the process of reviewing NSC 5432/1, as the OCB recommended to the NSC in its latest progress report, we could get a clearer statement. Based on NSC 5432/1, our military objectives are:

1. *To have each Latin American Government maintain a military establishment (Army, Navy and Air Force) adequate to maintain internal security and to protect sea lines of communication running through its territorial waters. (paragraph 13 a)*

a. It is our policy, in support of this objective, to provide military equipment on a reimbursable basis and, where necessary, to offer credit terms. (paragraph 20 e)

b. As a matter of policy, we have been unwilling to furnish grant military assistance in support of this objective. The Latin American governments, and particularly Colombia, have been insistent that we do so. Under the 1290d program, we are considering providing military assistance on a grant basis to countries which are financially incapable of maintaining the minimum forces required for internal security. Bolivia is the only country in Latin America presently considered in that category.

c. We have been unable to achieve this objective, or even to know how close we are coming to it, because:

(1) We do not know what forces the Latin American Governments require for internal security.

(2) We do not make equipment available on reasonable terms and in a prompt manner.

(3) We have no way of financing credit except on an ad hoc and haphazard basis.

2. *To have the Latin American Governments that are capable, furnish sufficient military units, in addition to those they need for internal security, for hemispheric defense to relieve the United States of the necessity of using its own forces. (paragraph 13 b)*

a. The United States stationed over 130,000 of its military personnel in Latin America during World War II to guard convoys, hunt submarines and protect strategic installations. It is our policy to equip and train Latin American units to assume this responsibility.

b. The Department of Defense considers, with certain exceptions, that the minimum forces required to achieve this objective are being supported under the grant military assistance program.

(1) This program was developed over four years ago and it should be reviewed to determine whether we are making progress toward our objective. Defense is making such a review.

(2) Defense desires to have Argentina and Mexico included in the program. Defense also desires to insure that Venezuela is taking adequate action to protect important strategic installations in that country and that was the purpose of staff talks with that country. Assistance to Venezuela would not, however, be on a grant basis.

(3) Defense did not at the time, and as far as can be determined informally, still does not consider that there is any military requirement for programs in Guatemala, Honduras, Nicaragua and most of the program in Ecuador. It will be recalled that the first three programs were started at our initiative and that Army and Navy programs were added in Ecuador, also as a result of our initiative.

c. In your conversation with Mr. McGuire, he indicated that Defense might be willing to consider whether it would be desirable to have any additional hemispheric defense units that would be financed on a credit and not a grant basis.

3. *To get the Latin American Governments to contribute forces to allied defense efforts outside the hemisphere. (paragraph 13 c)*

Our experience in attempting to get forces for the United Nations effort in Korea, and with the Colombian contribution, indicate that this objective can not be achieved unless we are prepared to provide grant assistance for Latin American units. We should recognize that fact. We have this objective as a corollary to our general objective of supporting the United Nations. Our experience with the Korean effort indicates that domestic political considerations dictate that we make every effort to get Latin American participation in collective actions by the United Nations. Such participation is also desirable if, in fact, the collective effort is to be truly a United Nations effort.

4. *To keep foreign military influence out of Latin America, Western as well as Eastern European. (paragraph 20 e)*

a. We have this as an objective because we desire to keep Latin America oriented toward the United States and, in many cases, this comes down to keeping the Latin American military oriented toward the United States.

(1) The following governments in Latin America are now run by military officers, who in most cases came in as the result of a military coup, and remain in office because they have the support of the military:

Argentina, Colombia, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Nicaragua, Paraguay, Peru and Venezuela (11).

(2) The following governments are in office because the military is willing to let them stay in office:

Brazil, Ecuador, Honduras and Panama (4).

(3) The following governments may not depend on the military for their tenure in office:

Bolivia, Chile, Costa Rica, Mexico and Uruguay (5).

Admittedly the foregoing tabulation may be an over-simplification but it indicates that to a great extent, our ability to achieve our political and economic objectives, as well as our military objectives, depends in no small part on how the military feel about it. How the military feel about the United States and its economic and political policies depends to no small extent on how cooperative we have been in getting them military hardware. Indeed, it may be more proper to state that this should be one of our primary political objectives instead of just a military objective.

b. In pursuance of this fourth objective, we carry out the following programs:

(1) Sale of military equipment for cash and credit. (paragraph 20 e)

If the Latin Americans buy their military equipment in Europe, they will also obtain their technical advice there, and we will have little opportunity to influence them and to keep them oriented toward the United States.

(2) Providing Army, Navy and Air Force missions to the exclusion of all foreign missions. (paragraph 20 a and b)

It will be recalled that German and Italian missions had a great deal to do with the unenthusiastic support some Latin American Governments gave us during World War II. The German mission to Argentina may have been responsible for Argentina staying out of the war until it was over.

(3) Providing training in the United States Military, Air Force and Naval Academies, and at United States service schools in the Canal Zone and continental United States. (paragraph 20 c and d)

5. *To obtain necessary base and other military rights in Latin America. (paragraph 16)*

a. We are seeking certain Army and Air Force base rights in Brazil essential to the security of the United States. We may have to give Brazil grant assistance to get them and such assistance may be unrelated to any objective but this one.

b. We seek multilateral support through the Inter-American Defense Board for the military rights we desire to obtain on a bilateral basis, e.g., the IADB has given the United States primary responsibility for organizing the defense of the Atlantic, Pacific and Caribbean. (paragraph 15)

c. We seek to secure and maintain the cooperation of all the Latin American Governments in the geodetic and mapping program of the United States Army which program is designed to secure adequate data for the production of aerial and other military maps.

6. *To obtain strategic materials necessary for the United States defense effort. (paragraph 18)*

The grant military assistance program, under objective 2 above, is directly related to this objective, e.g., the entire Navy program is based upon the need to develop the anti-submarine warfare capability of Latin American navies.

I have not heard any responsible comment by Department of Defense officials which would disagree with the above objectives. The divergence of opinion on what is required to achieve these objectives, or how we should go about, is however, so great that it sometimes raises questions as to whether there is really any intent to pursue the objectives we have set up for ourselves. Several things contribute to this situation, not the least of which is that Defense officials, including the JCS, are so preoccupied with putting out fires in other areas in the world that are in more immediate danger that they apparently cannot take the time necessary to tidy up the military situation in Latin America. Also, as you are aware, we have been unable to get agreement within the Department on what we should do on such important questions as credit for the sale of military equipment in order to present a united and strong recommendation to Defense. Finally, our military programs in Latin America are not strictly military in the sense that NATO is military. This is probably so because the military in Latin America plays quite a different role in national affairs from what it does in the United States and Western European countries. Defense views our military assistance, for example, as part of the price we have to pay for Latin American support in the United Nations. Probably the best current example of the politico-military nature of military assistance is Brazil's request for a carrier. As Admiral Wilkins pointed out in his discussion with you the other day, providing a carrier to Brazil has some military justification but, considering military requirements in Latin America as opposed to military requirements elsewhere, the Navy could not on a strictly military basis provide one. Taking into consideration the facts that the Army and Air Force need facilities in Brazil, and that Brazil has seized upon this requirement to demand a carrier for its own internal political reasons, we shall probably decide to loan Brazil a carrier.

35. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, May 8, 1956.

DEAR GORDON: We are concerned over the apparent deterioration of the preponderant military influence of the United States in Latin America and the effect of this deterioration on our general relations with the countries of the area. To find solutions to the outstanding problems in our military relations with Latin America is, we believe, of the utmost importance. The significance of these problems is increased by the recent Soviet bloc offers of military equipment to several of the countries in Latin America.

In its progress report on Latin America, approved March 28, 1956, the Operations Coordination Board cites the failure to make acceptable progress on standardization of military equipment (Paragraph 20 e, NSC 5432/1).[2] The OCB notes the adverse effect that this failure has on the fostering of closer United States-Latin American military relations (Paragraph 20 d), and may have on other policy objectives, such as the maintenance of United States military missions in Latin America (Paragraph 20 b). The OCB also suggests a reconsideration of the policy objectives that calls for Latin American contributions to collective defense efforts outside the Western Hemisphere (Paragraph 13 c). The foregoing problems, in the opinion of the OCB, require the attention of the National Security Council. The OCB, as you know, previously called attention to these problems, but in less specific terms, in its report for the period December 1, 1954–July 14, 1955.[3]

In a letter of February 14, 1956 to Mr. Dodge,[4] Secretary Humphrey raised the problem of the possible adverse effect of Latin American military expenditures on the area's economic development, and the Secretary asked Mr. Dodge to review this problem. On April 16, 1956, I sent you a copy of a memorandum[5] which also went to Mr. Overby, Treasury Department, and to Mr. Dodge, offering our views on the relationship between military and economic development. In that memorandum we have made some suggestions for

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[1] Source: Department of State, Central Files, 720.5/5–856. Secret. Drafted by Sayre and Sanders; cleared by Prochnow, Barnes, Lyon, Neal, and Bernbaum.

[2] NSC 5432/1, "United States Objectives and Courses of Action in Latin America," approved by the President, September 3, 1954, is printed in *Foreign Relations, 1952–1954*, vol. IV, p. 81. See Document 8 for the progress report.

[3] Document 4.

[4] Not found in Department of State files.

[5] See the enclosure, *ibid.*

changes in the operation of the reimbursable assistance program. We would welcome your views on those suggestions.

Military Objectives

We have considered our military objectives to be:

1. Having each Latin American Government maintain forces adequate for internal security and protection of sea lines of communication through its coastal waters.
2. Safeguarding of the hemisphere, including sea and air approaches, by individual and collective defense measures against external aggression, through the development of indigenous military forces and local bases necessary for hemispheric defense.
3. Support by Latin America, by contribution of forces beyond the requirements of hemispheric security, of collective action in defense of other areas of the free world.
4. Keeping the Latin American military oriented toward the United States and excluding any foreign military influence, other than United States military influence, from Latin America.
5. Securing any base or other military rights that the United States might require in Latin America.
6. Adequate production in Latin America of, and access by the United States to, raw materials essential to United States security.
7. An orderly development of the Latin American military establishment with a greater loyalty to constitutional processes and duly constituted authority.

Although the policy paper lists standardization as a military objective, it has occurred to us that standardization might more properly be considered the overall program we are carrying out with a view to achieving the foregoing objectives. The standardization program includes:

1. Sale of military equipment for cash or credit.
2. Granting of equipment for hemispheric defense units.
3. Assignment of Army, Navy and Air Force Missions.
4. Participation of the United States in the Inter-American Defense Board and in joint military commissions with Brazil and Mexico.
5. Training of Latin American military personnel at the academies of the three services and in service schools in the Canal Zone and the United States.
6. Invitations to top military officials of Latin American countries to visit the United States and the visits of United States military leaders, and military and naval units, to Latin America.
7. Cooperation with Latin American Governments in a hemispheric mapping program through the Inter-American Geodetic Survey.

According to the latest progress report of the OCB, we are experiencing our greatest difficulty in carrying out the reimbursable and grant military assistance programs and this in turn is largely

responsible for the failure to make adequate progress toward our objectives.

Reimbursable Assistance

Reimbursable assistance is, in the long run, perhaps the most important single aspect of our military relations with Latin America. We believe that the criteria for cash and credit sales to Latin America should be hemisphere defense and internal security. But to have a rational program founded on these criteria it would be necessary first to have an estimate by the Department of Defense of the forces each Latin American country needs and is militarily capable of maintaining for internal security and for its contribution, if any, to hemisphere defense other than the contribution already agreed to under the MDAP Program. On this basis, we believe, our cash and credit sales to Latin America would be more orderly and meaningful. Our two Departments would be in a position to encourage the Latin Americans to limit their military expenditures to recognized military requirements, and we would have a sound basis upon which to discourage unnecessary military outlays which waste financial resources that could better be devoted to economic development. We might then be able to discourage purchases in Europe by some assurances to the Latin Americans that we would assist them in fulfilling their requirements.[6]

I would appreciate knowing whether the Department of Defense would prepare the above estimate of force requirements. In his conversation with you on December 12, 1955,[7] Mr. Holland made this proposal, and it was repeated by Mr. Lyon in a conversation that he had with Mr. McGuire on January 30.[8]

If we know what, if any, hemisphere defense units would be desirable for the Latin American Governments to maintain in addition to those being developed under the grant program, reimbursable assistance could become an extension of the principle of our grant aid.

The work that the Department of Defense is doing on an internal security program in Venezuela, as a result of the recent United States-Venezuelan staff talks is, in our opinion, an excellent example that could be applied to other countries for developing an appraisal of the internal security requirements of individual countries. I am not suggesting, however, that staff talks would necessarily be desirable or feasible with other Latin American

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[6] In the source text, this sentence began with the following words: "Just as in our military mission program,". A line has been drawn through these words, and Sayre's initials appear in the margin.

[7] See Document 29.

[8] See Document 30.

countries or that other countries would require as much reimbursable assistance as may be necessary for Venezuela.

The extension of credit by the United States is, of course, an important feature of reimbursable assistance. I understand that the Joint Chiefs of Staff have recommended a source of credit funds separate from MDAP funds or the regular appropriations of the three armed services. A separate fund was not, however, included in appropriation requests for fiscal year 1957, and until such a separate fund might be sought, we urge that credit sales be financed either by the three armed services or from MDAP funds. For a systematic and purposeful reimbursable assistance program, we believe that an assured source of a modest amount of funds for credit operations is indispensable. The Venezuelan request for credit purchases amounting to $180 million over the next ten years makes even more urgent the need for our developing a workable credit program.

Mr. Holland left with you on December 12 a draft memorandum, suggesting principles and procedures for credit operations, and that paper might serve as a basis for further consideration by our two Departments, including the International Cooperation Administration.

Grant Assistance

I understand that your Department now has under review the grant military assistance program to determine (a) which of the existing military assistance programs we should continue to support and (b) what, if any, added programs under existing agreements are desirable. It is assumed that military assistance agreements are desired with Argentina and Mexico if, and when, that proves to be politically feasible.

As exceptions to the principle of grant assistance for hemisphere defense purposes, the programs in Honduras and Nicaragua were established for political reasons, on the recommendation of the Department of State. We do not believe, however, that there is a continuing political need for grant assistance to those two countries. We suggest, therefore, that the Department of Defense may wish to consider whether the Nicaraguan and Honduran programs need be continued on an active basis.

I understand that under the existing MDA Programs in Latin America the United States is supporting 10 squadrons of F–47 and F–51 aircraft for which we can no longer supply spare parts. It would seem desirable to determine at an early date whether these squadrons are still required and, if so, whether the United States should modernize them on a grant basis.

Paragraph 13 c, NSC 5432/1

This provision of our present policy, providing for Latin American defense contributions outside the Hemisphere, is, as indicated above, questioned by the OCB. We have no objection to retaining this paragraph in NSC 5432/1, for there could develop circumstances in which its implementation would be in the interest of the United States. We believe, however, that in general its implementation would require grant aid for any Latin American units participating in extra-continental defense operations, and an amendment to Paragraph 14 of NSC 5432/1 to that effect would appear appropriate.

I hope that the Department of Defense may give early consideration to the suggestions I have made above and that Mr. McGuire and Mr. Lyon will continue their meetings to pursue the pending problems. I would be pleased to contribute in any way possible to the solution of those problems.

Sincerely yours,

Robert Murphy[9]

[9] Printed from a copy which bears this typed signature.

36. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Lyon) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 9, 1956.

SUBJECT

Status of Major Military Problems—Progress to Date

This is to supplement my memorandum of April 11,[2] on the status of our activities in the military field, and to give you further data. We have apparently made substantial progress.

In the context of our over-all military objectives and the programs for attaining them, as related to political and economic factors, we have obtained a cleared position within the Department and brought the military problems to the attention of the OCB, the NSC, the Dodge Council, the Treasury Department, and the Department

[1] Source: Department of State, Central Files, 720.5/4–1156. Secret. Drafted by Sanders.

[2] See footnote 2, Document 32.

of Defense. ARA has been severely handicapped because E would not clear outgoing correspondence on major policy and related operational matters. E still objects to established policy, but, with the help of Mr. Barnes (U/MSA), E has been over-ruled by Mr. Hoover.

More specifically, Mr. Murphy has sent to Mr. Overby, Treasury, a letter and accompanying memorandum, dated April 16, 1956,[3] spelling out our policy objectives; describing the deterioration of US–Latin American military relations and the need for clarity of purpose and reform in our programs, especially that for cash and credit sales of equipment; and giving our specific recommendations. Copies went to Mr. Dodge and to Mr. Gray, Defense. The letter and the memorandum were prepared at the request of Mr. Hoover to set forth State's views on the issue of military versus economic development in Latin America, as raised by Mr. Humphrey in a letter to Mr. Dodge, dated February 14, 1956, asking the latter to review the problem. The long delay, from February to April, in our getting this letter and memorandum out was due to E's refusal to clear. That bottleneck has now been broken, for the time being at any rate.

We have also drafted, and Mr. Murphy has now signed a comprehensive letter to Mr. Gray,[4] summarizing what we consider US military objectives in Latin America to be, our views on the proper use of established programs to attain the objectives, and asking for replies to specific questions. The letter, for example, raises the matter of the basis (military or political) for the grant programs; the need for determining the extent to which Defense has a military interest in the Central American programs (which were established for political reasons); and the requirements for the various Air Force programs (possibly replacing non-operational propeller craft with jets). The letter also emphasizes the need for criteria (Hemisphere defense and internal security) to govern cash and credit sales, and the need for a reliable source of a modest amount of funds to finance credit. The letter brings together and refers to the matters you raised with Mr. Gray on December 12, 1955, those I took up with Mr. McGuire (Mr. Gray's deputy) on January 30, 1956, and the problems discussed in Mr. Murphy's letter and memorandum to Mr. Overby. In the past we have been at a disadvantage in talks with Defense because we could speak only for ARA, because of E's objections. Now that Mr. Murphy's letter has gone out, I shall see Mr. McGuire again to follow up.

Meanwhile, the Department of Defense has taken some desirable steps:

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[3] Document 33.

[4] *Supra.*

As a result of the letter, dated October 7, 1955, which ARA drafted for Mr. Murphy to send to Mr. Gray, and which Mr. Murphy and I followed up in a meeting with the Joint Chiefs of Staff on March 30, 1956,[5] the JCS have approved a comprehensive naval program for Latin America, based on a determination of the over-all military needs for naval vessels. The Department of Defense is now asking the Navy Department to seek the legislation necessary to implement the program. Under the program the specified ships will be loaned, but the US will most likely bear the cost of rehabilitating them for service.

The Joint Chiefs of Staff also have under review the Army and Air Force programs in Latin America and are awaiting the recommendations of the Commander in Chief, Caribbean on these programs.

The Joint Chiefs of Staff, we understand, have reviewed the US requirements for bases in Brazil and are preparing recommendations on the grant military aid that the US should offer in return. Determination of the latter is necessary so that our Embassy at Rio can proceed with negotiations.

The Joint Chiefs are considering Venezuela's request for credit in the amount of $180 millions to finance over the next seven to ten years the establishment of military units agreed in the recent military staff talks to be necessary for the protection of strategic installations in Venezuela.

[5] See Document 31.

37. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Deputy Under Secretary of State (Murphy)[1]

Washington, 11 May 1956.

DEAR MR. MURPHY: I refer to your letter of 7 October 1955[2] in which you requested that the Department of Defense give consider-

[1] Source: Department of State, Central Files, 720.5621/5–1156. Secret.

[2] Document 27. In an interim reply to Murphy's letter dated April 16, Gray wrote that the Joint Chiefs of Staff and members of his office had under serious consideration the question of loaning naval craft to certain Latin American countries. He

(Continued)

ation to the loan of naval vessels to certain Latin American countries.

The Joint Chiefs of Staff, after taking into consideration the political, military, and economic conditions of each country, have concluded that the loan of U.S. naval vessels to certain Latin American countries would make an important contribution to hemispheric defense. Accordingly, the Joint Chiefs of Staff have recommended the approval of a comprehensive program of ship loans to certain Latin American countries. I approve the program submitted as Inclosure 1.[3]

You will note that the cost of the ship transfers for the countries involved is $24,920,000. The Joint Chiefs of Staff favor that the recipient countries bear this cost under the reimbursable assistance program. However, your attention is invited to the fact that all the recipient countries have signed bilateral military assistance agreements with the United States and in cases where the recipient country is unable to defray the necessary expenses of ship reactivation and transfer it is planned to utilize grant aid funds commencing with the FY 1958 MDA program.

Although the program for the loan of naval vessels does not take into consideration requests from Venezuela and Argentina, it is the Department's intention to consider future requests from these two countries on a case-by-case basis.

Prior to requesting Congressional approval, it is requested that the Department of State determine the views of the proposed recipient countries. It is suggested that this be ascertained by coordinated action between the U.S. Ambassador and the Chief, MAAG, of the specified country. In the case of Brazil, it is further suggested that the proposed loan of two destroyers and minesweeper instead of an aircraft carrier requested by the Brazilians be used in negotiating with the Brazilians for additional base facilities desired by the U.S., if in your opinion, this is deemed appropriate.

Sincerely yours,

Gordon Gray

(Continued)
further stated that "the President's signature on 4 April to a bill authorizing the loan of the two submarines you mentioned to Brazil is an indication of a step in the direction you are advocating." (Department of State, Central Files, 720.5–MSP/4–1656)

[3] Not printed.

38. Circular Telegram From the Secretary of State to Certain Diplomatic Missions in the American Republics[1]

Washington, May 22, 1956—2:18 p.m.

808. Response repeated requests Latin American Governments naval vessels Defense has developed program loan ships MDAP countries purpose increasing anti-submarine warfare capability. Where feasible desire reactivation cost be paid by recipient country. Reactivation cost destroyer $1.8 million each; submarine $1.3 million; destroyer escort $1.6 million; patrol craft $500,000.

Proposed loan Brazil two destroyers, two submarines, one mine sweeper; Chile two destroyers, two submarines; Colombia two destroyers; Cuba one destroyer escort, one survey ship; Ecuador one patrol craft; Peru two destroyers; Uruguay one destroyer escort.

Desire you together with MAAG Chief determine soonest government interest participation this program and whether government willing pay activation costs. Each government would be required conclude loan agreement and amend secret MDAP plan include ships force basis. You may disclose loan is part overall program but not vessels that countries other than that to which you are accredited would receive.

FYI Consideration will be given activating vessels with MDAP funds but you should avoid leaving any impression this is possibility.

Dulles

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[1] Source: Department of State, Central Files, 720.5–MSP/5–2256. Secret. Drafted by Sayre and initialed for the Secretary by Rubottom. Sent to Habana, Lima, Montevideo, Quito, and Santiago; pouched for information only to Bogotá and Rio de Janeiro.

39. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Deputy Under Secretary of State (Murphy)[1]

Washington, 1 August 1956.

DEAR BOB: In your letter of 8 May 1956,[2] you voice the concern of the Department of State over the apparent deterioration of U.S. influence in Latin American military affairs and its consequent harmful effect on our general relations with the countries in this area. We, in the Department of Defense, share your concern, and with this in mind, I have already requested the Joint Chiefs of Staff to prepare a general reappraisal of the Latin American situation with particular attention to the establishment of a long-range military program including force goals for both MDA-supported and other units. You will, of course, be informed of the results of this study.

This JCS reassessment will provide a gauge for the measurement of our reimbursable and grant aid programs and will give us a basis for discouraging, insofar as possible, purchases by Latin American countries of military equipment from outside sources which would put undue strain on the economies of many of the countries. With regard to reimbursable aid, I agree with you that it is perhaps the most important single aspect of our military relations with Latin America. For this reason, I do not believe it realistic to confine the reimbursable aid program within the limits of a policy having as its criterion only hemisphere defense. In the past, it has been clear that Latin American countries do not feel bound to limit their military equipment purchases to what we feel is necessary for hemisphere defense, and for us to place such arbitrary limits on our willingness to sell would result in deterioration of our military relations rather than enhancing them. Once refused by us, the country seldom ceases its attempts to obtain the desired equipment but rather goes on to a foreign source, which is in direct opposition to our national policy of standardization. The proof of this is in the fact that Latin American countries since 1950 have purchased over $300,000,000 worth of military equipment from foreign sources; this amount far exceeds the military equipment we have sold to them under reimbursable aid, although the only restrictions on this program in the past have been, by and large, political and economic. To increase the restrictions on this program would serve only to increase Latin American purchases

[1] Source: Department of State, Central Files, 720.5/8–156. Secret.
[2] Document 35.

from foreign sources at a time when the Soviet Bloc has appeared on the scene.

I feel, therefore, that we should continue to treat each request in the reimbursable aid program on a case-by-case basis, measuring it against, but not confining it to, the criterion of hemisphere defense. At the same time, we should urgently seek to put ourselves in the best possible competitive position vis-à-vis European sources. This involves not only satisfactory solutions to our pricing and credit problems, but a re-evaluation of the priority of equipment and funding allocated to Latin America. In this respect, the establishment of a revolving fund to permit purchases under reimbursable assistance would be of great assistance. While there are no funds in the FY 57 program to accomplish the above, I propose to submit legislation in the FY 58 program to establish such a fund and would appreciate your support.

The provision of grant aid to Latin America has so far been limited to hemisphere defense, and in your letter of 21 May,[3] you reiterate that, as a general policy, the State Department believes that grant aid should not be furnished for internal security purposes. We agree that the general initiation of grant aid to Latin American countries on a basis of internal security would introduce many problems. However, individual cases of attempted Communist subversion, as in the case of Guatemala and Bolivia, will arise and should be given individual attention. This fact was one of the impelling reasons for the institution of the NSC 1290d program.[4] As a result of 1956 changes in the Mutual Security legislation, Latin American countries receiving assistance under that program will, we believe, be eligible for more adequate support than heretofore.

Further, with regard to grant military aid, the inclusion of Argentina and Mexico in the program and the continuation of grant aid to Nicaragua and Honduras will undoubtedly be considered in the study now being made by the Joint Chiefs of Staff, as will the determination whether or not to modernize Latin American air forces.

With regard to your comment on paragraph 13 c of NSC 5432/1, Defense would have no objection to the deletion of this provision in its entirety; however, if it is retained, I believe that the all-inclusive language of the provision as it now appears should be

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[3] Not found in Department of State files.

[4] NSC Action No. 1290–d was taken at the 229th meeting of the NSC, December 21, 1954. It established the "1290–d program", which concerned the development of constabulary forces and the improvement of internal security in free-world countries regarded as vulnerable to Communist subversion. The action is printed as part of the memorandum of discussion at the 229th NSC meeting, in *Foreign Relations*, 1952–1954, vol. II, Part 1, p. 832.

altered to place such contributions on an "as feasible and desirable" basis.

Sincerely yours,

Gordon Gray

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40. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, August 8, 1956.

103. Depcirtel 81.[2] Argentine proposal meet with Uruguay, Brazil defense South Atlantic.[3]

General Military Plan for Defense American Continent prepared by Inter-American Defense Board November 1951 in accordance Rio Treaty[4] and approved by all OAS governments (except Mexico) including US (Venezuela approved with reservations) . . . .

From information available Department not clear whether Argentina contemplates 1) solely military level planning and coordination operations as provided IADB Plan or 2) formal treaty organization at government to government level.

US position is we have no objection alternative (1). Concept of Latin American contributions to hemisphere defense (as opposed solely defense one's national territory) within individual country's means is fundamental of US military policy Latin America. This fundamental manifest Rio Treaty, Resolution III of Fourth Meeting

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[1] Source: Department of State, Central Files, 710.5/8–856. Secret; Priority. Cleared with Gray at the Department of Defense and signed for the Secretary by Rubottom. Pouched to Guatemala, Habana, Managua, Panamá, San José, San Salvador, Tegucigalpa, Port-au-Prince, and Ciudad Trujillo.

[2] Not printed. (*Ibid.*, 710.5/8–356)

[3] On July 31, the Argentine Foreign Office publicly announced that it had extended invitations to Brazil and Uruguay to attend a meeting in Buenos Aires to consider organization for the defense of the south Atlantic. In a memorandum to Deputy Under Secretary Murphy, dated August 6, commenting on the Argentine proposal, Acting Assistant Secretary Rubottom wrote: "According to the Argentine Under Secretary of Foreign Affairs, the proposal originated with the Argentine Navy. While it undoubtedly reflects a desire to maximize hemispheric cooperation as well as a move to gain international prestige, it probably also springs from internal motives and may represent a desire to obtain greater military assistance and equalize Argentina's status vis-à-vis Brazil in this regard." (*Ibid.*, 710.5/8–656)

[4] Reference is to the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), opened for signature at Rio de Janeiro, September 2, 1947, and entered into force for the United States, December 3, 1948; for text, see 62 Stat. (pt. 2) 1681.

Foreign Ministers Washington 1951,[5] . . . and US bilateral mutual defense assistance agreements with 12 Latin American countries (Brazil, Uruguay, Chile, Peru, Ecuador, Colombia, Nicaragua, Honduras, Guatemala, Cuba, Haiti, Dominican Republic). We would expect however if Brazil Uruguay decide participate with Argentina in defense coordination those two countries would assure their bilateral defense commitments with US would be preserved.

US does not favor alternative (2). In our opinion Rio Treaty entirely adequate as formal treaty arrangement collective defense entire hemisphere and treaties for collective defense areas within hemisphere neither necessary nor desirable.

Possibility Argentine proposal might result in further Argentine Uruguayan Brazilian requests US military equipment. US position is those countries' acceptance either alternative (1) or (2) would not alter amount military aid US prepared provide each of three countries.

If invited US would send observers to military level discussions Buenos Aires.

In your discretion you may inform government foregoing. . . .

Dulles

[5] For text of Resolution III, entitled "Inter-American Military Cooperation," see *Fourth Meeting of Consultation of Ministers of Foreign Affairs of American States, Washington, D.C., March 26–April 7, 1951: Report of the Secretary of State* (Department of State Publication 4928, Washington, 1953), pp. 69–70.

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41. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, October 9, 1956.

DEAR GORDON: I have deferred answering your letter of August 1[2] (I–14386/6) because our military policy was under review by the National Security Council and I thought that our reply should await the completion of that review. The President approved on September

[1] Source: Department of State, Central Files, 720.5/8–156. Secret. Drafted by Sayre; cleared by Acting Assistant Secretary of State for Inter-American Affairs Rubottom, Barnes, and Kalijarvi.

[2] Document 39.

25 a new policy statement on Latin America (NSC 5613/1) which includes modifications in our military policy.[3]

The second paragraph of your letter expresses some concern that we propose "to confine the reimbursable aid program within the limits of a policy having as its criterion only hemisphere defense." I stated in my letter of May 8 that "We believe that the criteria for cash and credit sales to Latin America should be hemisphere defense and internal security." Paragraph 33 of NSC 5613/1 also makes it quite clear that we should provide the minimum military equipment, on a grant basis if necessary, required by Latin American governments for the maintenance of both internal security and hemisphere defense. I do not believe that there is any difference of opinion between our two Departments on this point, or in fact within the Executive Branch.

I should hope that the gauge for the measurement of our reimbursable and grant aid programs which you have asked the JCS to provide will be sufficiently precise so that we can make the determinations required by NSC 5613/1. We have felt that an estimate of force requirements for internal security, as we now have for hemispheric defense, would give us a satisfactory gauge to consider Latin American arms requests. It has been our thought that our military missions in Latin America could provide adequate information on which to base an estimate of internal security force requirements. It has also been our thought once we had an estimate for force requirements that our military mission might review reimbursable aid requests so that our two Departments could have their comments before acting upon a request, especially if the request were of a substantial nature.

As I stated in my letter of May 8, we believe that an assured source of a modest amount of funds for credit operations is indispensable. We would, therefore, be prepared to support your proposed request in fiscal year 1958 to establish a revolving fund for this purpose.

Sincerely yours,

Robert Murphy[4]

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[3] Document 16.

[4] Printed from a copy which bears this typed signature.

42. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Deputy Under Secretary of State (Murphy)[1]

Washington, 25 October 1956.

DEAR BOB: I refer to your letter of 9 October 1956[2] and agree that we are on common ground on the provision of military equipment to Latin American governments for the purposes of both internal security and hemisphere defense on a reimbursable aid and, if necessary, on a grant aid basis. However, I am sure you will agree that requests for grant assistance for maintenance of internal security must be carefully scrutinized and considered on a case-by-case basis.

With reference to the participation of the military missions in Latin America in the provision of adequate information on which to base an estimate of internal security force requirements, their recommendations were incorporated in the over-all study presented by the Commander-in-Chief, Caribbean Command, which is receiving full consideration by the Joint Chiefs of Staff in their conduct of the reappraisal of the military situation in Latin America. I will advise you when this reappraisal, which will furnish us with a proposed country force basis which each nation should be encouraged to adopt as a national force structure for both hemisphere defense and internal security, will be available.

Where MAAGs are located in Latin American countries, present procedure dictates that consideration be given to the comments of the chiefs of the military missions when a country requests reimbursable aid. If there is no MAAG this is also the practice where we have established military missions. Regardless of the foregoing, I am certain that under Department of State Circular 168 of 5 September 1956[3] the U.S. Ambassador in each Latin American country will exercise his prerogative to request such comments from the chiefs of the military service missions.

I appreciate your support in the proposed establishment of a revolving fund for credit operations. This will in a great measure insure its chances of acceptance. We have begun the necessary work to request such a fund in FY 1958.

Sincerely yours,

Gordon Gray

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[1] Source: Department of State, Central Files, 720.5/10–2556. Secret. A handwritten note by Sayre in the margin indicates that no reply was required.

[2] *Supra.*

[3] Not printed.

43. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Chairman of the Joint Chiefs of Staff (Radford)[1]

Washington, November 16, 1956.

DEAR ADMIRAL RADFORD: I am in receipt of a letter dated October 26, 1956 from Colonel L.H. Watson, Jr., Executive to the Chairman, Joint Chiefs of Staff,[2] informing me that you are considering a trip to South America about December 26, 1956[3] and that your primary interest will be in visiting countries with which the United States has military programs. Colonel Watson requests my comments regarding countries which should be visited and items which would warrant your attention.

Although the time available for your visit is relatively limited, I recommend that you visit all the South American countries with which we have military assistance programs (Brazil, Chile, Colombia, Ecuador, Peru and Uruguay) and, in addition, Venezuela and Argentina.

With regard to the countries with which we have grant military assistance programs, I believe that Brazil would warrant your closest attention while Ecuador and Uruguay would be of least interest in connection with your review of our support of their military forces. Nonetheless, I should recommend you visit both Ecuador and Uruguay, even if briefly, since failure to do so would unquestionably be resented by those governments and could not be easily justified if you visit countries where we have no grant military assistance programs.

Ecuador presents a special case. As you are aware, there is a keen jealousy and still some smoldering bitterness between Ecuador and Peru, originating in their border dispute, and each is keenly conscious of the military preparedness or any military build-up of the other. A visit to Peru, without a visit to Ecuador, would therefore be politically inadvisable.

The value of Venezuela to the United States as a source of strategic materials needs no mention, and the staff talks and agreement between military authorities of both countries early this year is evidence of the importance which the United States attaches to the

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[1] Source: Department of State, Central Files, 102.201/4–1657. Secret. The source text, a copy of the original, was found attached to circular airgram 8533, dated April 16, 1957. The airgram informed the Embassies in Latin America that Radford was planning a trip in late April and the first 3 weeks in May.

[2] Not found in Department of State files.

[3] Radford eventually made the trip the following spring. See Document 47.

maintenance of the internal security and stability of the country. Even though the United States has no military assistance agreement with Venezuela, there are in the country relatively large missions from all three Armed Services. I feel that you undoubtedly should, and would wish to, include Venezuela in this visit.

Inclusion of Venezuela in your visit raises the question of inclusion of Argentina as well. If your visit were limited to those countries with which the United States has bilateral military agreements, then consideration might be given to the omission of Argentina from your itinerary. However, if Venezuela is included, I believe that Argentina should not be omitted. Although Argentina feels that for internal political reasons the moment is not opportune for the signing of a bilateral military assistance agreement with us, she has recently signed an Air Force Mission Agreement and has requested the assistance of the United States in meeting her military needs. I feel that it is to the interest of the United States to encourage what appears to be an increasing orientation of the Argentine military—and the present government is a military government—toward the United States. I believe that your visit at this time would contribute toward this end.

Inclusion of Argentina and Venezuela also raises the question of the type of publicity to give to your visit. I believe that such publicity should state that the purpose of your visit is to give you an opportunity to become better acquainted with the area, to meet your counterparts there, and to discuss United States military programs with our diplomatic and military representatives. I think that reference to the fact that your primary interest is in visiting those countries with which we have bilateral agreements should be avoided, insofar as possible.

I should like to make a few general observations on our relations with Latin America and our programs which may be useful to you. After your proposed schedule of visits is more firm we would be pleased to supplement these remarks with a more detailed briefing if you so desire.

Our relations with all of the countries which I have suggested you visit are good. Our relations with Argentina have improved materially over the last year and I believe we have probably never had a better opportunity to strengthen those relations. For her part, Argentina has been making a concerted effort during the last year to get back on the inter-American team.

With the exception of Venezuela, all of the countries are experiencing difficult economic times, Peru probably less than the others. We have had economic discussions with all of them except Uruguay and Venezuela with a view to assisting them in solving these problems and active efforts are continuing in this regard. One of the

factors that has aggravated their economic situation is expenditures for military equipment which are generally in excess of their military requirements. To cite just a few examples, the Colombians recently ordered two destroyers in Sweden at a total cost of approximately $25 million. Colombia has also purchased from Canada six F–86 jets at a cost in excess of $3 million and is considering the purchase of an additional nineteen jets. At the same time, Colombia has commercial dollar arrearages on the order of $300 million, has sought a loan from the Export-Import Bank of $25 million for a steel mill, and has informed the United Nations that it cannot afford to pay any of the dollar costs of its participation in the United Nations Emergency Force for the Middle East.

Peru has apparently over-extended itself by purchasing a squadron of Hawker-Hunter jet fighters and a squadron of Canberra jet bombers in England after purchasing a dozen F–86s from us and ordering two submarines costing in excess of $16 million from the Electric Boat Company.

Ecuador, which can ill afford any such expenditures, has recently purchased two destroyers, a squadron of jet fighters and eight jet bombers from the United Kingdom and an undisclosed quantity of arms from Argentina—expenditures estimated to total more than $12 million. Yet Ecuador states it cannot pay for the transportation of our military mission personnel to and from Ecuador and has found it necessary to seek a stabilization loan in the United States to shore up its currency.

I believe that it would be helpful, in discussing military matters with Latin American military officials, to discourage such expenditures which are in excess of what the Joint Chiefs have indicated are Latin America's requirements for military forces.

All of the countries concerned, with the possible exception of Peru, have expressed dissatisfaction with the general level of United States military assistance. You are probably aware of Colombia's desire for increased grant assistance because this has been discussed by the Joint Chiefs twice during the last two years. Argentina is now seeking substantial military equipment, which it states it desires to buy, but in fact wants on a grant basis without signing a military assistance agreement. Discussions are now being held between the Argentine Embassy and the Department of Defense to determine Argentina's military equipment needs, and the price and availability of this equipment. I should like also to call to your particular attention recent telegrams from our Embassy at Rio de Janeiro (telegrams No. 477 and 482 of November 12 and 13, respectively)[4]

[4] Neither printed. (Department of State, Central Files, 735.5621/11–1256 and 732.5622/11–1356, respectively)

which indicate the deterioration of our military relations with that country at a time when we are most in need of Brazil's strong cooperation in furnishing essential military facilities to the United States. I believe we will have to give careful study to this problem and take prompt and remedial action to reverse the apparent unsatisfactory trend in our military relations with Brazil.

Sincerely yours,

R.R. Rubottom, Jr.[5]

[5] Printed from a copy which bears this typed signature.

44. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Under Secretary of State (Herter)[1]

Washington, March 25, 1957.

SUBJECT

Naval Ship Loan Program for Latin America

Background: In a letter of October [7] 1955,[2] Mr. Murphy brought to Defense's attention repeated requests of Latin American governments to purchase naval vessels and the suggestion that we lend naval vessels from the "moth ball" fleet to satisfy this demand if Defense considered that the Latin American countries had a military requirement for such naval vessels. The Navy proposed the loan of a total of seventeen destroyers, destroyer escorts, and submarines to Argentina, Brazil, Chile, Colombia, Cuba, Peru and Uruguay. These ships are World War II types and would be used to train naval personnel in the countries concerned in antisubmarine warfare tactics. The JCS and Defense agreed that these countries required the

[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America, January–May, 1957. Secret. Drafted by Sayre and concurred in by Richards, the Offices of the Special Assistant for Mutual Security Affairs and Assistant Secretary for Policy Planning, and the Department of Defense.

This memorandum is Tab D in a set of briefing papers drafted for the Under Secretary of State in preparation for an OCB meeting on March 27, when the subject of the naval ship program for Latin America was to be considered. Tab A is a letter from Sprague, March 26, *infra*. Tab B consists of excerpts from NSC 5613/1; see Document 16. Tab C is a letter, March 21, from Acting Director of the Bureau of the Budget A.R. Jones to the Secretary of Defense; see paragraph 3, *infra*.

[2] Document 27.

ships, in addition to those they already have, so that they will be better able to defend their ports and sea lines of communication off their coast, and therefore approved the program and so informed us on May 11, 1956.[3] This program has been discussed with all of the Latin American governments concerned and they have evinced a strong desire to receive the vessels proposed. We do not have a commitment to provide the naval vessels but these countries may be expected to criticize us strongly if the proposal is not submitted to the Congress.

This program has been approved by all the Executive agencies concerned except the Bureau of the Budget. Budget considers it (1) inconsistent with the military policy stated in NSC 5613/1 and (2) objects to the added requirement for appropriated funds. Budget's second point can be easily disposed of because the ships are being loaned on the understanding that the recipient will pay the cost of reactivation. Budget's first point is a manifestation of the disagreement on our military policy which was brought to your attention during your briefing in ARA. Paragraph 32 of NSC 5613/1 authorizes military assistance to Latin American countries to enable them to (a) maintain their internal security (b) defend their ports, strategic installation and communications routes and (c) participate in combined operations for the defense of the hemisphere. Paragraph 33 of NSC 5613/1 authorizes this assistance to be given on a grant, credit or cash basis. The proposed naval program is justified under (b) and (c).

Budget considers that the "legislative history" of NSC 5613/1 authorizes military assistance only for internal security. In revising the policy last year, the NSC recommended (1) deleting a paragraph on encouraging the Latin Americans to participate in extra-continental defense activities, (2) revising our policy on hemisphere defense to make it less open-handed and (3) emphasizing defense of national territory and internal security. Defense submitted the list of forces it considered we should help the Latin Americans support, on a grant basis, and this list was included as an annex. State concurred in the revised policy because it provided authority for the program we are carrying out as well as the proposed ship loan program and seemed more consistent with Latin American capabilities than the previous policy. The President approved this policy on September 25.

We consider Budget's position inconsistent with (1) our treaty commitments under the Rio Treaty, (2) military assistance agreements with twelve Latin American countries, (3) the plans of the Inter-American Defense Board for hemisphere defense which the U.S. has approved and (4) NSC 5613/1.

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[3] Document 37.

Our failure to present the ship loan program to the Congress will aside from military reasons which Defense will advance, have serious adverse effects on our relations with Latin America. These countries have been critical of us because of the limited military assistance we have furnished and especially of our inability or failure to provide naval vessels and aircraft. They have been purchasing naval vessels in Europe which (a) has been a drain on their economic resources and (b) has increased European influence in Latin America and proportionately reduced our influence. Failure to proceed with this program would jeopardize our military relations, the position of our military missions, and would also have serious effects on our political relations. I should like to stress particularly the effects on Argentina, Brazil and Colombia.

We are taking every step possible to strengthen our relations with the present Argentine Government to get it firmly committed to the inter-American system and close ties with the United States. This Government is at present headed by military officers. So far we have been able to do very little on the military side and we therefore view the proposed ship loans as a valuable contribution to our over-all objective.

In the recent negotiations with Brazil, for a guided missile tracking station, as well as the current negotiation for other military facilities, our military assistance has been a key issue. We consider the proposed loan of four destroyers not only essential to the success of these negotiations but as important to improving our current unsatisfactory military relations with Brazil.

Legislation was introduced during the last session of Congress to lend two destroyers to Colombia. The Colombians will find it particularly difficult to understand why we are unwilling to reintroduce this legislation.

Recommendations: (1) That you indicate in the OCB meeting that the Latin American governments are prepared to pay the cost of reactivation.

(2) That we support Defense's view that these ships are fully justified within NSC 5613/1.

(3) That our failure to present the program to Congress would have serious adverse repercussions on our relations with the countries concerned and would cause further deterioration in our military relations with these countries.[4]

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[4] There is no indication on the source text that these recommendations were approved, but see Document 46.

45. Letter From the Assistant Secretary of Defense for International Security Affairs (Sprague) to the Under Secretary of State (Herter)[1]

Washington, 26 March 1957.

DEAR GOVERNOR HERTER: On January 10, the Department of Defense submitted to the Bureau of the Budget a legislative proposal to authorize the transfer of certain naval vessels to foreign countries. The wording of the legislation is general and provides in essence authority to sell four ships and lend forty-five others through either grant or reimbursable military aid.

While the legislation is general, the proposed actual allocation of ships is specific, and is provided in back-up material planned for use during the presentation to the Committees on Armed Services. Attached is a list[2] of the proposed distribution of ships as approved by the Joint Chiefs of Staff and as agreed to by the Departments of State and Defense and the International Cooperation Administration.

On March 21, the Bureau of the Budget returned the legislation with the statement that it would be acceptable provided that the seventeen ships for Latin America, the four destroyers for Spain, and the destroyer escort for Thailand were eliminated. In support of this position, the Bureau of the Budget asserted that: (a) The loans to Latin America were not in consonance with the latest NSC policy on Latin America because the ships were not essential to the military mission of those countries as defined in this policy and would require a sizeable expansion of naval assistance both in terms of initial outlay and subsequent support; (b) pending the outcome of the current review of U.S. policy toward Spain, no authorization for additional aid should be sought; (c) the destroyer escort for Thailand is not essential to the Thai naval mission of internal security.

The Department of Defense takes exception to the interpretation of U.S. policy expressed by the Bureau of the Budget and requests that the Operations Coordinating Board review the proposed ship loan bill and determine whether or not it is within NSC policy.

In support of Defense's position, the following points are outlined:

(a) As to Latin America, paragraph 32a of NSC 5613/1 sets forth the concept that " . . .[3] each of the Latin American States is

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America, January–May 1957. Secret.

[2] Not printed.

[3] These and following ellipses are in the source text.

responsible for its own internal security and for providing . . . a contribution to the defense of the hemisphere by the defense of its coastal waters, ports . . . and routes of communications . . . "

Paragraph 33 states that the U.S. should "Make available to Latin American states, on a grant basis if necessary, the minimum military equipment necessary to assist them to carry out the limited missions in the foregoing paragraph."

The Operations Coordinating Board, on March 20, 1957, in concurring in an Outline Plan of Operations for Latin America,[4] agreed to "make available to Latin American nations the minimum military equipment necessary to assist them to carry out the limited missions in NSC Paragraph 32 . . . Be prepared to utilize approximately $40 million of FY 1957 MAP funds to permit such equipment to be made available on a grant basis or on a credit basis in those instances where procurement under the reimbursable provisions (Section 106) of the Mutual Security Act is not feasible."

Also, on March 20, 1957, the Joint Chiefs of Staff, in a proposed U.S. Military Guidance for Latin America, stated, in part, " . . . The type of naval forces which will provide the greatest assistance, both in the protection of the country concerned and of the hemisphere in general, are those which possess ASW and antimine warfare capabilities." The ships proposed for loan to Latin America are, without exception, of those types. Concerning the costs involved, although the proposed legislation allows either grant or reimbursable aid, practically all of the loans are proposed as reimbursable aid. In most cases, each of the recipients has agreed to pay the costs of reactivation.

[Here follows a section dealing with Spain and Thailand.]

In view of the importance of this legislation and the urgency of an early submission to the Congress, it is requested that the matter be considered at the next meeting of the Operations Coordinating Board.

Sincerely yours,

Mansfield D. Sprague

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[4] See Document 17.

46. Letter From the Deputy Under Secretary of State (Murphy) to the Chief of the International Division, Bureau of the Budget (Macy)[1]

Washington, April 1, 1957.

DEAR MR. MACY: I refer to the draft legislation which is now being considered by the Bureau of the Budget to lend naval vessels to certain foreign governments, including seven Latin American governments. The loan of naval vessels to Latin American governments was the subject of discussion in the meeting of the Operations Coordinating Board on March 27 and, at the request of the Board, a further meeting on March 28 of representatives of the Departments of State and Defense and the Bureau of the Budget to resolve certain differences that have arisen. You requested in the meeting on March 28 that this Department provide further comments on the issues involved and this letter will respond to that request.

1. *Policy Considerations.* It is my understanding that the Bureau of the Budget considers that the President's military policy on Latin America authorizes military assistance, whether it be cash, credit, or grant, primarily for internal security and that any assistance provided for other than that purpose would have to be justified as incidental to that purpose or as an exception on either military or political grounds. I also understand that even though the force levels for military grant assistance were included in NSC 5613/1 as an annex to indicate the general magnitude of forces contemplated by the policy and that the Financial Annex to NSC 5613/1 stated a general magnitude of expenditure for this purpose of $32.8 million annually, it is the view of the Bureau of the Budget that these annexes are not valid because they were not revised to conform to the military policy approved by the President.

We do not agree with this interpretation of the policy. The United States has encouraged the Latin American governments, almost from the founding of our Republic, to develop a common approach to problems of the Western Hemisphere. This policy has been formalized in the military field in the Inter-American Treaty of Reciprocal Assistance and further refined in inter-American resolutions, notably Resolution III of the Fourth Meeting of Consultation

[1] Source: Department of State, Central Files, 720.5–MSP/4–157. Secret. Attached to a memorandum from Rubottom to Murphy, April 1, recommending that Murphy sign the letter. The letter was drafted by Sayre on March 29, in response to a request from the Bureau of the Budget for the Department's views on the subjects covered in the letter. It was cleared by Rubottom, Barnes, Sanders, and the Office of the Assistant Secretary of State for Policy Planning.

of Ministers of Foreign Affairs, in the Inter-American Defense Board's Plan for the defense of the hemisphere, and in Military Assistance Agreements which we have with twelve Latin American Governments. The policy interpretation of the Bureau of the Budget would be inconsistent with our traditional policy and our obligations under existing treaties and agreements. This Department concurred in recommending the military policy now contained in NSC 5613/1 because the policy recognized our treaty obligations (paragraph 7), our objective of a common approach to the defense of the hemisphere (paragraph 15 f), and because we considered that the recommended courses of action (paragraphs 31–34) constituted a realistic approach to this problem and were within the developing military capabilities of the Latin American countries. We considered the modest forces and funds proposed in the annexes as appropriate and consistent with these paragraphs. We recognize that the policy stated in NSC 5613/1 represents a scaling down of the military missions outlined in the previous policy stated in NSC 5432/1 and, in fact, took a leading part in this process. We urged that the policy requirement that we encourage Latin American governments to maintain forces for extra-continental military missions be eliminated and this was done. We also urged that the policy more specifically state what we desired in the way of a military contribution and that we recognize that the Latin Americans could not defend by themselves the Western Hemisphere south of the United States. We asked that the Department of Defense state specifically what units it wanted Latin America to maintain as a contribution to hemispheric defense. We considered that the policy recommended to the President in NSC 5613/1 did these things. It established the military missions as (a) maintenance of internal security and (b) a contribution to hemispheric defense by defense of coastal waters, ports and approaches thereto, bases, strategic areas and installations located within Latin America and communication routes associated therewith. It provided that participation in combined military operations with United States forces within the hemisphere would be an exception to these missions and should be justified under stated criteria. We consider Mr. Cutler's memorandum to you of March 28 an excellent statement of this policy and we concur with his views.

2. *Terms of Ship Transfer Agreements.* We believe that the transfer of any ships under the loan program, if the legislation is approved, should be made under the provisions of existing Military Assistance Agreements and should be subject to the provisions of those Agreements. An additional agreement covering the transfer is required, and we would suggest that it be substantially the same as the attached Agreement with Brazil on the transfer of two submarines. One of the provisions of the agreement would be that the recipient

country agree to pay the cost of reactivating the ship from the "moth ball" fleet as well as the cost of operations and maintenance. While almost all of the ships would be replacements for existing units, we do not believe that we should require, as a condition of the transfer, that the recipient country retire or scrap an equal number of vessels of similar types that they now have in their naval forces. We take this position because the ships are being loaned and subject to recovery by the United States at any time during the loan period. Further, we are requiring the recipient country to pay reactivation cost. We therefore consider that it would be an unreasonable requirement that the countries concerned agree formally to retire or scrap existing vessels.

3. *Financial Capability of Recipient Countries.* All of the proposed recipients of ships, except Uruguay, have indicated a willingness to pay the cost of reactivation, although Brazil has stated that it would want credit terms. Considering that the transfers would take place over a period of three years and that the countries concerned would not be expected to pay the total cost in one year (the highest cost being $8.8 million to Brazil for four destroyers), we believe that the cost is within the financial capability of the countries concerned. If their financial situation should change we would, of course, want to reconsider our position.

In the meeting at the Bureau of the Budget on March 28[2] it was urged by Budget representatives that since the Latin Americans could apparently afford the cost of reactivating these ships they should be able to afford the cost of all military assistance and we should therefore no longer provide any grant military assistance. This Department does not agree with this view. The Latin Americans are already paying the entire cost of support of their military establishment, except for the few military units we have requested them to maintain for hemisphere defense. Even with respect to these units, they are paying the operating costs and have purchased some of the equipment. It is planned that they will assume the maintenance cost for agreed units at the rate of an additional 25% per annum until they have assumed the entire maintenance cost in fiscal year 1960. We should not lose sight of the fact that we have a security interest in the maintenance of these units and it is therefore important that we bear a small part of the cost to develop them into units which are combat effective. It seems to us that, from a financial point of view, this is more realistic than maintaining additional United States forces to perform these missions. This is, of course, what the United States did during World War II at a substantial cost to our Government.

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[2] No record of this meeting has been found.

4. *Political Considerations.* Ship loans to Latin American governments have been recommended by the Joint Chiefs of Staff as necessary to carry out the military missions stated in paragraph 32 of NSC 5613/1. It is inevitable, however, that political considerations become involved and must be taken into account in determining whether recommendations, based on military grounds, should be accepted. The proposed ship loans have been discussed with the recipient countries. The United States has no commitment to provide these ships, but I feel certain that these countries confidently expect that necessary legislation will be introduced and that the ships will be forthcoming. We anticipate serious political repercussions if the program is not presented to the Congress. I do not want to labor this point but I believe the cases of Brazil and Argentina will illustrate the problem. One of the principal issues which has arisen in our negotiations with Brazil for military facilities is the military assistance which we are providing Brazil under the Military Assistance Agreement. Brazil is of the strong opinion that the United States has not made available to Brazil military equipment, especially naval vessels, of the quality and quantity required to discharge agreed defense missions. Brazil was reluctant to agree to the establishment of a guided missile station on her territory unless she could be assured of additional equipment to discharge her defense responsibilities and has again made this an issue in the negotiations for other facilities. We consider that the proposed loan of four destroyers is essential to the success of the negotiations.

It has been the objective of our relations with Argentina to have Argentina firmly commit herself to the inter-American system and to close and friendly relations with the United States. The Argentine Government is most anxious to acquire naval units of the types proposed and we therefore consider the proposed loan a valuable contribution to our objective.

I have made this reply as lengthy as it is because I understood that it was your desire that we state as fully as possible our position on the proposed loans. I consider the proposed legislation consistent with our best interests and our policy on Latin America, and I should like to urge strongly that it be submitted to the Congress as soon as possible.

Sincerely yours,

Robert Murphy[3]

[3] Printed from a copy which bears this typed signature.

47. Letter From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Chairman of the Joint Chiefs of Staff (Radford)[1]

Washington, April 10, 1957.

DEAR ADMIRAL RADFORD: I appreciate receiving the itinerary for your proposed trip to South America contained in your letter of April 2.[2] I do have a few comments to add to those made in my letter of November 16, 1956.[3]

Argentina continues to experience serious economic and political problems which again reached the crisis stage during the preceding three weeks, resulting in the resignation of the Ministers of Finance and Air. While the change in the Air Ministry reflects a division in the military support of the present government which could conceivably lead to the resignation of President Aramburu, we believe that he will remain in office for the time being. Despite its unsatisfactory economic and financial situation, Argentina is seeking to purchase an aircraft carrier from the United States or Great Britain and is considering the purchase of a salvaged World War II German submarine from the West German Republic. If the opportunity should arise, it would be helpful if you could discourage these efforts as an unwise expenditure of funds and detrimental to the effectiveness of the Argentine Navy and our efforts to assist the Argentine Navy in approving its naval establishment.

We have concluded an agreement with Brazil which will permit the United States Air Force to establish a guided missile station on Brazilian territory. We expect to commence soon negotiations for other facilities which the Army and the Coast Guard desire in Brazil. I believe you are aware of Brazil's strong feelings on the level of our military assistance to that country through consideration of the problem by the Joint Chiefs. You may expect that the Brazilians will seek your support in their demands for greatly increased quantities of military equipment, especially naval vessels. Specifically, Brazil may seek your support for United States grant assistance for rehabilitation of the aircraft carrier purchased from Britain, including the provision of aircraft for the carrier. You will recall that the Joint Chiefs recommended against the United States giving Brazil an aircraft carrier for military reasons, but interposed no objections if

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[1] Source: Department of State, Central Files, 102.201/4–257. Secret.

[2] This letter informed Rubottom that Radford was again planning a visit to Latin America, from April 25 to May 20, and asked if Rubottom wanted to make any revisions or additional comments to his letter of the previous November. (*Ibid.*)

[3] Document 43.

the United States wanted to sell such a carrier for political reasons. In the light of this background, it has been agreed between the Departments of State and Defense that we would give no support to Brazil for its aircraft carrier, except on a reimbursable basis.

During the last week there have been riots in Santiago, Chile, set off by alleged student dissatisfaction with transportation rate increases. A state of siege has been declared and the Army has been used to restore order. If this situation continues, it may be inadvisable for you to visit Chile. I shall advise you in sufficient time to modify your itinerary if that should prove necessary.

Peru has sought a third Fletcher class destroyer in addition to the two destroyers of this class which the Joint Chiefs have approved as a loan to Peru. The Peruvian Minister of Marine has also sought additional naval assistance, including a cruiser, through direct correspondence with Admiral Burke and through conversations between this Department and the Peruvian Embassy. I understand that it is the view of the Department of the Navy that no military requirement exists for Peru to obtain a cruiser and we would not, for political reasons, favor the acquisition of a cruiser by Peru. We also have reports that Peru is considering the acquisition of three destroyers from Britain which would be in excess of force goals established by the Joint Chiefs. I believe it would be most helpful if you could encourage the Peruvian Navy to devote its energy to the development of its anti-submarine warfare capability and desist from efforts to acquire a cruiser.

We concluded a secret military assistance agreement with Venezuela on February 5 and $10 million has been made available in fiscal year 1957 to initiate the program on a credit basis.

Sincerely yours,

R.R. Rubottom, Jr.[4]

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[4] Printed from a copy which bears this typed signature.

48. Memorandum From the Chairman of the Joint Chiefs of Staff (Radford) to the Chairman of the Operations Coordinating Board (Herter)[1]

Washington, 15 April 1957.

SUBJECT

Military Force Structure Requirements for Latin America (U)

1. Reference is made to our recent conversation[2] regarding the establishment of estimates of military force structures required by each Latin American country. In response to your request, the following views are furnished in support of a recent position taken by the Joint Chiefs of Staff that such estimates for each Latin American country should not be established.

2. MAP Force Objectives, developed primarily from military considerations, are used to assist in determining the grant assistance program for Latin America. However, it is not considered that the military need will be the determining factor as to U.S. response on future requests for reimbursable assistance. Generally, our response will be affected primarily by political considerations or our desire to exclude influences of other nations from Latin America.

3. After thorough consideration of the practicability of developing force structures, which would include the country as well as MDAP-supported forces of each Latin American nation, the Joint Chiefs of Staff conclude that no valid basis for developing firm and comprehensive force structures exists. Establishment of a list of estimated Latin American force requirements for use as a criterion in determining the military needs of Latin American countries is, therefore, impracticable.

4. Furthermore, despite the best of intentions, it is considered that there is a tendency for lists to become regarded as programs, which could lead to additional requests for both grant and reimburs-

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[1] Source: Department of State, Central Files, 720.5–MSP/4–1757. Secret. Attached to a letter from Sprague to Herter, April 17, stating that if the enclosed memorandum "is not suitable for your purpose I will be glad to take the matter up further with Admiral Radford." A memorandum to Rubottom from Spencer King, April 19, reads in part as follows: "Admiral Radford's reply is disappointing and is inconsistent with Mr. Herter's report to the OCB on April 10 in which he said that the Admiral had agreed to furnish country-by-country estimates upon request." King further stated that he had suggested to Sayre that ARA prepare a letter from Herter to Sprague referring to Herter's report to the OCB and requesting estimates on Argentina and Brazil.

[2] This reference is uncertain, but it might be to the OCB meeting mentioned in footnote 1 above.

able assistance and result in embarrassment or undue expense to the United States.

Arthur Radford

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49. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Sprague)[1]

Washington, May 8, 1957.

DEAR MR. SPRAGUE: I have received your letter of April 17 to Governor Herter with which you transmitted Admiral Radford's memorandum of April 15 on military force structures for Latin American countries.[2] As I understand it, the substance of Admiral Radford's memorandum is that, in general, all military assistance to Latin America, except the MAP Force Objectives, should be based primarily on political considerations. If we accept this general principle, under paragraph 34 a of NSC 5613/1 of September 25, 1956, we would be required to discourage purchases by Latin American Governments of any military equipment unless we consider such purchases "essential for United States political interests". The effect of the Joint Chiefs' determination as stated in Admiral Radford's memorandum, when taken in conjunction with the President's policy, would pose exceedingly difficult problems of implementation and we therefore plan to consult our Ambassadors in Latin America as to the feasibility of applying the determination of the Joint Chiefs. The application of the general principle outlined in paragraphs 2 and 3 of Admiral Radford's memorandum may also be expected to affect the position and influence of our military missions or commissions in Latin America, especially in the eight countries with which we do not have Military Assistance Agreements, and the denial of additional equipment, unless essential for our political interests, may also have a bearing on the willingness of countries participating in the Program to maintain and utilize MAP supported forces for the purposes intended. We would, therefore, appreciate the views of the Department of Defense on the following points:

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[1] Source: Department of State, Central Files, 720.5–MSP/4–1757. Secret.

[2] See *supra*, and footnote 1 thereto.

1. The units in the MAP Force Objectives are to be used only for agreed hemispheric defense missions and may not, without the permission of the United States, be used for internal security purposes. Our two Departments have agreed that we would approve the use of MAP forces to suppress internal disorders if it appeared that the ultimate purpose of the disorder were the establishment of a communist oriented or dominated government. In addition to this possible use of MAP forces for internal security, does the Department of Defense consider that Latin American military forces, especially their armies, require any other military equipment (either as replacements, modernization or additions) for internal security forces? If so, to what extent do the security interests of the United States require that we support internal security forces in Latin America?

2. The Joint Chiefs have previously determined that hemisphere defense plans require the participation of Argentina and Mexico, and the Department of Defense has requested that this Department conclude military assistance agreements with these two countries when it is politically feasible to do so. Is it intended that the general principle recommended by the Joint Chiefs would apply to these two countries and that their participation in hemispheric defense is therefore no longer required?

3. . . .

4. The Joint Brazil–United States Military Commission recommended on January 13, 1954, a substantial increase in the force objectives for Brazil. The Joint Chiefs approved this recommendation in principle and on June 13, 1956, authorized the Chairman of the United States Delegation to the Joint Brazil–United States Military Commission to so inform the Brazilian President of the Commission. This approval in principle of what is commonly referred to as Recommendation 18 of the Joint Commission was confirmed to the Brazilian Government by the Embassy's note of October 5, 1956.[3] The Brazilian Government may be expected to rely heavily on Recommendation 18, as well as the Military Assistance Agreement and the Annex thereto, to justify its request for substantial increases in the MAP Force Objectives during the military discussions to be held . . . . How should the general principle outlined in Admiral Radford's memorandum be applied to Brazil? Does the determination by the Joint Chiefs modify in any way their previous recommendation on acceptance of Recommendation 18? If so, to what extent?

I should like to emphasize again, and I believe the foregoing points indicate the general nature of our problem, that our representatives in the field and we here in Washington have a very difficult task in attempting to implement the President's military policy on Latin America. The recommendation by the Joint Chiefs that all requests for military equipment in excess of that provided under the military assistance program be considered on a political basis shifts to the Department of State the responsibility for deciding whether

[3] Transmitted to the Department of State in telegram 351 from Rio de Janiero, October 5, 1956. (Department of State, Central Files, 732.5–MSP/10–556)

equipment is needed but does not provide an acceptable guide that can be used by our representatives on a continuing basis to carry out the President's policy of discouraging acquisition of non-essential military equipment. We entertain serious doubt that attempting to discourage all procurement of military equipment unless it is for MAP Force Objectives will be very successful or that, in fact, the Latin American countries have no definable military requirement for military forces except as represented by the MAP Force Objectives. We continue to believe that an estimate of the forces which each Latin American country reasonably requires to discharge the missions envisaged in paragraph 32 of NSC 5613/1 is essential if we are to carry out the President's Latin American military policy on a realistic basis.

Sincerely yours,

Robert Murphy[4]

[4] Printed from a copy which bears this typed signature.

50. Memorandum of a Conversation, Department of State, Washington, June 6, 1957[1]

SUBJECT

US Military Relations with Latin America: Grant Assistance; Equipment; Proposed OAS Force

PARTICIPANTS

Deputy Under Secretary Murphy
Acting Assistant Secretary Rubottom
Admiral Radford
General Cannon
General Pritchard
Mr. Terry B. Sanders, Jr. (OSA)
Mr. Weldon Litsey (REA)

[1] Source: Department of State, Central Files, 710.5/6–657. Confidential. Drafted by Sanders and initialed by Murphy.

The purpose of the meeting was to hear Admiral Radford's views on military problems in Latin America, following the Admiral's recent return from a trip to South America.[2]

Admiral Radford said that there is little military justification for our grant military assistance to Latin America. The theory of the grant program is, in part, that some Latin American military units which we are helping to develop would be moved to the Panama Canal Zone in time of emergency. In fact, however, we would not move those units, and if we did, they would not be satisfactory for the defense of the Canal.

The Admiral expressed the view that it would seem preferable to change the concept of the program and help most of the Latin American countries develop ground forces which could be transported by air and which could serve as units on call by the Organization of American States to maintain peace in the hemisphere. US assistance for this purpose could have a legal justification as a hemisphere defense undertaking.

In addition, said the Admiral, there would also be a military justification for our helping some of the Latin American countries in the development of anti-submarine naval units but certainly not cruisers or aircraft carriers. The emphasis should be on small simple types of naval vessels.

Admiral Radford explained that the equipment which we have been giving the Latin Americans is in large measure that which is being discarded by the US armed forces. We have been encouraging the Latin Americans to model their forces after our own, but this is a mistake since the structure, equipment, and style of forces in Latin America should be different in order to meet the particular requirements of under developed countries. The type of equipment which we should provide is not tanks or artillery, but mortars, pack howitzers, and other light items for use within the recipient countries and for OAS missions. It has been a mistake to provide the Latin Americans with anti-aircraft units and jet fighter bombers. These items are of questionable use to support the forces of the Latin American countries or to serve in Panama. Light fighter planes to carry 100 pound bombs and stay in the air four or five hours are a type of aircraft the Latin Americans need. Another useful type of aircraft would be a simple transport plane. The Latin Americans are simply unable to maintain the jets they are getting from us or many of the planes they have bought from the United Kingdom and other European countries. Ecuador, for example, for lack of pilots and funds, is not flying the jets that it bought from England. Jets that

[2] See Document 47.

the Venezuelans have bought are likewise sitting idle for lack of pilots.

Armed forces in Latin America suffer acutely for want of trained personnel because of short-term enlistments and rapid turnovers of enlisted men although the officers, especially the younger ones, are good professional soldiers. To insure a more effective use of our assistance we should insist on more sensible enlistment policies as a condition to aid.

The United States should probably undertake to manufacture especially for Latin America and other under developed countries the light, simple types of equipment best suited to their needs. The Admiral said that he plans to speak to Secretary of Defense Wilson about this.

Some of our military and diplomatic representatives in Latin America are too enthusiastic about providing the Latin American countries with military assistance. They cite, for example, the small percentage (1%) of total US foreign military aid that goes to Latin America and conclude that Latin America should have much more. It is important that both the US military and diplomatic personnel should cease talking in these terms and encourage more sensible Latin American aspirations and undertakings in the military field.

Brazil's acquisition of an aircraft carrier from Britain is an example of waste. The carrier is the result of rivalry between the Brazilian Navy and Army. It would not be possible for the United States to rebuild this carrier and make it a useful vessel. Attempting to remodel the ship will be unsatisfactory, and we should let the British do the overhauling and take the responsibility.

Mr. Rubottom said that Argentina is also interested in a carrier. He had heard a report from a source in the Republic Steel Company that a consortium of companies which is planning to build an oil pipeline in Argentina, is contemplating the use of an aircraft carrier on the flight deck of which they would roll plate into pipes, using power generated by the carrier.

Admiral Radford observed that the military men running the government in Argentina seem to be doing well in a difficult job but that, as in Brazil, there are serious service rivalries among the armed forces.

Mr. Rubottom pointed out that the OAS has demonstrated again and again its ability to prevent disputes in the hemisphere from degenerating into serious armed conflict. He said, however, that the Admiral's suggestion about an OAS police force is an attractive one worth studying. The Admiral's observations had been directed exclusively toward our grant assistance program, although it is in reimbursable assistance that we encounter most of our problems in military relations with the Latin Americans. The approximate $25

million that we give them annually in grant assistance is very small as compared with the large amount that the Latin American governments spend on their military establishments each year. In the grant program there is, of course, a force base for each recipient country. It would be helpful also to have an estimate by the US military of what would be a reasonable total force base for each Latin American country so that we would have a yardstick against which to measure the frequent requests that we have from the Latin Americans to buy military equipment for cash or on credit.

Admiral Radford replied that he did not believe the preparation of such estimates would be desirable. The Latin Americans might learn of them and expect us to help in equipping and training the force estimates. Also, an appraisal of Latin America's actual military requirements would probably not be very valid, although certainly they would be small. It would probably be difficult, for example, for our mission personnel in Latin America to make reliable estimates from our point of view, since in the course of their military duties a good part of their time is spent in the employ of the local governments.

Mr. Rubottom added that it will, no doubt, take time to induce the Latin Americans to eliminate unnecessary military expenditures. As the grant program is terminated, reimbursable assistance will presumably need to take its place, and we should do all we can with an effective reimbursable assistance program to encourage the Latin Americans to channel their military expenditures along useful lines. Already in Venezuela there has been established a force goal to govern our credit sales of equipment. Mr. Rubottom suggested that it might be possible also to establish goals on a trial basis in one or a few other countries, such as Ecuador, Uruguay, or Paraguay.

Admiral Radford observed that Uruguay is a sad country. Mr. Rubottom responded that in its efforts to create a utopia Uruguay was, indeed, in many difficulties. The Bureau of Inter-American Affairs has assigned a small team of officers to study Uruguay's troubles. This team is taking a completely new look at Uruguay with a view to making recommendations on US policy.

Admiral Radford said that he had received a letter from Ambassador Ravndal in Quito suggesting that Mr. John Broger, Deputy Director of Armed Forces Information and Education, go to Quito to carry out a "Militant Liberty" program on a trial basis. The Admiral and Secretary Wilson are willing to send Mr. Broger, and the Admiral left a letter with Mr. Murphy to this effect. The Admiral stated that in Ecuador he was well impressed with the President, the Minister of Defense, and the Foreign Minister. Ambassador Ravndal is eager to obtain US economic assistance to bolster President Ponce's position.

Mr. Rubottom said that to help meet the Ambassador's recommendations on economic assistance we have secured for Ecuador $2 million from the Smathers' fund, and we are also giving what assistance we can to Ecuadoran Ambassador Chiriboga in his negotiations with the Export-Import Bank.

In Caracas, the Admiral said, the President of Venezuela told him that Venezuela has no territorial ambitions. However, the President added that if such territories as Curacao, Trinidad, and British Guiana should change hands, the Venezuelans would like to have them.

In conclusion, Admiral Radford asked that the Department give thought to the development of Latin American forces to serve the OAS. In each country such a unit could be an elite corps in which high personnel standards might be maintained, thus serving as a model for other forces. These units would be provided with air transportation. Their very existence might help to keep disputes in the hemisphere from arising.

In the course of the conversation Admiral Radford said that he would like to describe to Secretary Dulles his views on military relations with Latin America.

Action Required:

1. Before the Defense Department does anything about changing the concept and structure of the grant military assistance program in Latin America, along the lines suggested by Admiral Radford, the Admiral would like to have the views of the Department of State on the desirability of forces to be used by the OAS.

2. A reply should also be made to the letter, dated June 6, which Admiral Radford left with Mr. Murphy indicating the willingness of the Defense Department to send Mr. Broger to Ecuador, as suggested by Ambassador Ravndal.[3]

[3] Action on items 1 and 2, respectively, was assigned to Krieg and Wardlaw.

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51. Editorial Note

On July 18, the Council of Delegates of the Inter-American Defense Board approved in Washington a revised joint military defense plan for the Western Hemisphere. No copy of the plan has been found in Department of State files.

52. Memorandum on Substance of Discussions of Department of State–Joint Chiefs of Staff Meeting, the Pentagon, Washington, August 30, 1957, 11:30 a.m.[1]

[Here follow a list of those present (27) and discussion of agenda item 1, the Trinidad Naval Base. The Department of Defense was represented by 17 officers, the Department of State by 9, and the Office of the Secretary of Defense by 1. The ranking members of the Defense delegation were Generals Twining, Taylor, and LeMay, and Admiral Burke. Deputy Under Secretary Murphy and Counselor G. Frederick Reinhardt headed the State delegation.]

2. Latin American Force Goals

Mr. Murphy observed that this was an old subject and that the OCB was now seized of it. He said that the State Department was particularly concerned about the interpretation of "case by case" as raised by the OCB discussion. He commented that in the view of the State Department this should mean country by country.

General Twining agreed, noting that Admiral Radford thought that he had worked this problem out in April with Governor Herter. General Twining added that the setting of over-all force goals for Latin America would raise complex problems. General Taylor observed that our military requirements in Latin America are negligible but that for the purpose of collective security the United States does provide some military assistance to Latin American countries. Admiral Burke said that the Navy's concept on assistance to Latin America calls for the providing of small ships useful for anti-submarine warfare.

Mr. Murphy inquired whether the JCS have established any missions for Latin American forces, noting that in case of war an over-all definition of Latin American military missions would be desirable. General Twining indicated that no formal definition of Latin American responsibilities had been drawn up.

Mr. Snow stated that the Inter-American Defense Board had arrived at a definition of the hemispheric defense requirements for 12 of the 20 Latin American countries and that the State Dept. thus had in the case of these 12 countries the benefit of Defense Department thinking. Problems arose however in the case of the other 8 countries, and even with regard to the first 12, there was lacking a DOD appraisal of reasonable military requirements apart from their hemispheric defense roles. Mr. Snow described the effective assistance received when he was in Mexico from the Army

[1] Source: Department of State, State–JCS Meetings: Lot 61 D 417. Top Secret.

Attaché General Van Atta and earlier from Colonel Messenger in Costa Rica; he said that the advice of these military experts had been most useful to our embassies in dealing with the military assistance problems of those two countries. Mr. Snow also commented that Cuba has recently made a request for 8 medium tanks and because there is no U.S. definition of Cuba's over-all military needs, it is difficult to know how to act on this request.

General Taylor said that situations of this sort bore out the view of the Joint Chief that military requests by Latin American countries should be treated on a case-by-case basis.

Mr. Irwin noted that the OCB is now acting on this problem and is faced by an apparent difference in interpretation between the JCS, who appear to recommend that Latin American requests be considered item by item, and the State Department, which considers that country-by-country requirements should be the basis of consideration.

General Taylor said that our military objective in Latin America is to increase their internal security and that in case of war we could expect only a limited military contribution from Latin America other than anti-submarine operations.

Mr. Murphy proposed that the matter be withdrawn from the OCB in view of the belief of the Joint Chiefs that it is impossible to give a general picture of United States military requirements in Latin America. He commented that if State could receive JCS guidance even on an informal basis it would be of assistance in dealing with Latin American requests. General Twining said this would be a good way to deal with the matter and that the Joint Chiefs would upon request by State take a look at each case and give their opinion.

It was agreed that ARA in the State Department would deal with Admiral Austin of the Joint Chiefs on cases involving requests by Latin American countries for military assistance. Mr. Murphy noted that the State Department was not seeking to obtain a formal statement of force goals from the Joint Chiefs.

[Here follows discussion of agenda items 3–5, nuclear storage in the Philippines, nuclear storage at Thule, and the Seventh Fleet.]

53. Letter From the Acting Assistant Secretary of Defense for International Security Affairs (Irwin) to the Deputy Under Secretary of State (Murphy)[1]

Washington, September 5, 1957.

DEAR MR. MURPHY: I refer to your letter of 8 May 1957 to Mr. Sprague,[2] his interim reply of 16 May,[3] and the 30 August 1957 meeting between State and the Joint Chiefs of Staff,[4] all of which concern military force structures for Latin American countries.

With regard to the specific points raised in your letter of 8 May 1957, current intelligence indicates, in general, that Latin American military forces are capable of maintaining internal security within their respective countries. It is recognized that equipment deficiencies may exist from time to time and that it may, as was the case with Venezuela, become desirable to strengthen the internal security forces of a particular country. In the future, most Latin American countries will have occasion to seek equipment for replacement, modernization or augmentation of existing forces. It is not feasible to attempt to predetermine the military validity of future Latin American requests nor their relationship to U.S. security interests. Previous determinations regarding military assistance to Argentina, Mexico, Venezuela and Brazil are still considered to be valid by the Joint Chiefs of Staff and are reaffirmed by the Department of Defense.

Subsequent to the exchange of correspondence referred to in the first paragraph above, this office has approved the Joint Chiefs of Staff recommended "U.S. Military Planning Guidance—Latin America" containing the results of the general reappraisal of the area. Copies of this guidance were provided the Department of State by Defense letter of 2 August 1957[5] for distribution within your department. This planning guidance is considered to be an appropriate document for military planning required for implementation of U.S. policy by U.S. representatives in the field. In conjunction with their views on the points raised in your letter, the Joint Chiefs of Staff have reaffirmed their determination on country force estimates, which was defined in our letter of 2 August. In addition, in further support of this determination, they have added that "such force estimates, based on the several objectives listed in paragraph 32 of NSC 5613/1, must necessarily be flexible since many variations can

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[1] Source: Department of State, Central Files, 720.5–MSP/9–557. Secret.
[2] Document 49.
[3] Not printed.
[4] See *supra*.
[5] Not printed.

satisfy the same requirement. Thus force levels cannot serve as firm guides, nor as effective means of discouraging unnecessary procurement of military equipment by Latin American countries. The Joint Chiefs of Staff consider that future requests for military equipment by Latin American countries can best be treated on a case-by-case basis and in light of the military, political, and economic conditions existing at the time of the request."

In accordance with the agreement reached between the Joint Chiefs of Staff and State at the 30 August meeting, the Department of Defense will consider future requests for military equipment by Latin American countries on a case-by-case basis.

Sincerely yours,

John N. Irwin II

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54. Letter From the Assistant Secretary of Defense for International Security Affairs (Sprague) to the Deputy Under Secretary of State (Murphy)[1]

Washington, 11 October 1957.

DEAR BOB: I have your letter of 9 October[2] referring to the agreement between you and General Twining concerning consideration of applications for military assistance by Latin American countries.

As you know there was a long standing disagreement between the Department of State and the Joint Chiefs of Staff concerning the method of handling force goals for these countries. While Admiral Radford was Chairman I participated in meetings which resulted in

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[1] Source: Department of State, Central Files, 720.5–MSP/10–1157. Secret.

[2] In this letter, Murphy wrote:

"It is my understanding of the agreement between General Twining and myself that the Joint Chiefs of Staff would, on the request of the Department of State, consider applications by Latin American countries for military assistance, and would give an opinion as to the military needs of the requesting country to serve as guidance for the Department of State. We also agreed that the Bureau of Inter-American Affairs should deal with Vice Admiral Bernard L. Austin with reference to these matters. At that time, I stated that the Department of State no longer seeks to obtain a formal statement by the Joint Chiefs of Staff of force goals of Latin American countries in view of the decision by the Joint Chiefs that there is no basis for a firm and comprehensive long-range military program which would include country as well as MAP-supported forces for each Latin American country." (*Ibid.*, 720.5–MSP/9–557)

the understanding that such force goals would be established only on a case by case basis.

However, if the more recent understanding which you have with General Twining is to the effect that the Joint Chiefs of Staff on application directly from the State Department will advise it with respect to individual Latin American country applications for military assistance, I cannot agree to it.

In order for this office to carry out its duties within the Department of Defense, requests from the Department of State for such information as is required for a particular Latin American country in connection with the Military Assistance Program should be directed to this office. We in turn will request guidance from the Joint Chiefs of Staff after which the Department of State will be advised. If as a result thereof the Department of State wishes to change the Military Assistance Program for a particular Latin American country, discussions can be undertaken with ICA participation to determine the extent of such assistance. The Secretary of Defense, through this office, is not bound to follow the force goals established by the Joint Chiefs of Staff in determining the military assistance to be programmed for a particular country. The Joint Chiefs of Staff indigenous force goals are military objectives which have to be evaluated by this office representing the Department of Defense by ICA and by the State Department to ensure that all factors in connection with the Military Assistance Program are considered. Of course, the over-all foreign policy implications involved are determined by the Department of State.

I am forwarding a copy of this letter to General Twining who I am sure will agree that the normal channels within the Department of Defense should be used in any situation involving the responsibilities of this office.

Because of my projected absence from the country, may I suggest that Mr. Irwin might contact you in order that this office may render the maximum assistance using prescribed Department of Defense procedures with reference to military assistance programming for Latin American countries.

Sincerely,

Mansfield D. Sprague

55. Letter From the Deputy Under Secretary of State (Murphy) to the Assistant Secretary of Defense for International Security Affairs (Sprague)[1]

Washington, October 31, 1957.

DEAR MANNY: I have noted your good letter of October 11[2] regarding the agreement mentioned in my letter of October 9[3] concerning the consideration of applications for military assistance by Latin American countries.

I think your letter is based on a misunderstanding, but I am not sure whether the misunderstanding is yours or ours. It was my understanding that there was agreement not merely with the Joint Chiefs of Staff, but with you as well because John Irwin attended the meeting at which the agreement was made. I believed there was no conflict of view. That concerns the substance of the agreement. As to channels, obviously, in communicating on this subject, we will continue to address you as the responsible Defense official when we have communications to make on this subject.

In writing you personally and informally this way I would like to add that one of the advantages we find in the periodic meetings with the JCS, which are attended by you or your representative, is that we are able to have discussions and arrive at agreements which are concurred in by you as well as the JCS. That in no sense, it seems to me, alters the use of regular channels between your office and mine, and is not so intended.

Yours sincerely,

Robert Murphy[4]

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[1] Source: Department of State, Central Files, 720.5–MSP/10–1157. Secret. Drafted by Murphy.

[2] *Supra.*

[3] See footnote 2, *supra.*

[4] Printed from a copy which bears this typed signature.

UNITED STATES ECONOMIC AND TECHNICAL ASSISTANCE POLICY TOWARD THE OTHER AMERICAN REPUBLICS AS A GROUP[1]

56. Instruction From the Secretary of State to All Diplomatic Missions in the American Republics[2]

CA–5350 *Washington, February 15, 1955.*

SUBJECT

Latin American Criticism of Proportionate Distribution of United States Aid

Joint State–USIA circular instruction. Criticism of the proportional amount of United States aid to Latin America, as compared with economic assistance in other areas, especially Europe and the Far East, is so persistent as to constitute a serious factor in our good relations with other governments of this hemisphere. The criticism is voiced by the press, by political campaigners, by delegates at inter-American and international conference tables, and, both publicly and privately, by official spokesmen at the highest level. An even graver potential than criticism, however emotional and inaccurate, is the popular conviction among many citizens of the other American Republics that most of their economic ills—whether due to inflation, falling world markets, unbalanced budgets, discouragement of foreign capital, or corruption in government—are due either to the asserted grasping, materialistic policy of the United States or to alleged United States blindness to Latin America's needs in the eagerness to rebuild the economies of Europe and the Far East.

This latter theory has at present the wider acceptance. It is being stressed, for instance, in Brazil, a country that is traditionally our ally and that has a present administration which we can endorse and would be glad to assist, but that so far shows extreme reluc-

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 186 ff.

[2] Source: Department of State, Central Files, 820.00–TA/2–1555. Confidential. Drafted by Muna Lee, Public Affairs Adviser, Bureau of Inter-American Affairs, and approved by Sparks. Cleared by Robinson McIlvaine, Deputy Assistant Secretary of State for Public Affairs; Krieg; Corliss; Hilton; Selma G. Freedman, Bureau of Economic Affairs; and Charles F. Johnson and Louis C. Mattison, U.S. Information Agency.

tance to accept terms which would make U.S. assistance remedial and not merely alleviating; such as, for example, permitting private enterprise to develop the immense oil resources which Brazil possesses but cannot itself develop, and taking practical measures to balance the budget so as to check the inflationary process.

In view of the prevalence of this attitude in the hemisphere, the Department and the Agency consider it essential that officers of the Embassy, especially those in frequent contact with leaders in public life and public opinions, make a concerted, concentrated effort to prove that the effectiveness of United States assistance cannot be measured accurately by dollar totals alone. There are many possible angles of approach to a factual presentation of the official United States record. The most important is that any realistic comparison of the merits of assistance given by the United States to Latin America with that to other more strategically endangered areas must be made primarily on the basis of objectives and results, not of total expenditures. The vast bulk of such expenditures outside the western hemisphere has been largely emergency and reconstruction in nature. No valid comparison can be drawn between United States aid to Europe and to Asian and Middle Eastern areas and the assistance the United States has given Latin America over the last nine years. One might as well reproach the United States for stationing troops in Europe and not in Latin America.

The enormous volume of United States funds directed to the Old World—whether in the form of grants, loans, manpower, equipment, or military assistance—has all been poured out in response to one overwhelming emergency. It has been necessary to rebuild, to shore up, to consolidate, and to defend the forces of freedom against an actual threat of physical encroachment by Communist imperialism on one front after another. This has been and still is a race against time, to construct a viable system of free nations out of a complex of war-weakened powers and under-developed, exposed countries.

United States relations with Latin America in the economic sphere have been and are entirely different. Latin America is the one sizeable area where there has been no war devastation and no impending threat of armed Communist aggression. (Infiltration of arms is another matter.) In the other American Republics, United States assistance is motivated, not by the demands of an emergency, but by settled considerations of alliance and mutual interest, enunciated in the Good Neighbor Policy and adhered to ever since as a permanent part of foreign policy.

It is in Europe, in the Far East, that our tremendous expenditures for bases, for maintenance of armed forces, must be made; and the sums required are staggering. It should be remembered by

western hemisphere critics, however, that in appropriating these sums, the United States Government is protecting not only itself but its sister nations; that what we spend for the maintenance of peace and protection of the free world is spent not for the United States alone but also for the peoples of every other American State from the Rio Grande to the Straits of Magellan. In other words, our expenditures in Europe and in the Far East are, in the long run, part and parcel of our good partnership with our more immediate neighbors.

Similarly our critics should not be permitted to forget that, with growing recognition of the communist menace, countries in both Europe and the Far East which are actual outposts of free world defense, have been forced by incontrovertible geographic and political circumstance to undertake and maintain vast military establishments which they could neither construct nor continue without the financial aid of the United States. Nor can it be forgotten that huge sums were spent by the United States—necessarily, unavoidably, spent, the condition of Europe and the nature of the American people being what they are—on the reconstruction of towns and countrysides utterly devastated by war.

In Latin America, the total sum of the technical assistance, the grants, and the loans, may be proportionately small in relation to the total of United States foreign aid; but every dime expended in Latin America is intended for better living conditions, enlarged opportunities, accelerated development. Such a dime is of more demonstrable personal benefit to the individual average citizen in Latin America than a defense installation dollar could be.

In Europe and the Far East we have jet planes and bases, thousands of troops, and defense stockpiles of which the nature of the contents may not even be hinted at. They are a tragic necessity of our era, and billions of United States dollars were required to put them there. No such sums were required in the other American Republics where no such installations are necessary, but the dollars of United States assistance in our good partnership with the sister American nations has increased life expectancy for millions of citizens of this hemisphere. They have given the newborn child a better chance to stay alive and a more healthful and hopeful environment in which to grow.

Moreover, in the case of countries so situated and constituted as the American Republics—contiguous, with free enterprise economies, and rapidly developing—the international transfer of resources and capital should be effected primarily through private initiative. The United States has demonstrated that it intends as a consistent policy to encourage this process where it is welcome, and to supplement it by the constructive, economically-defensible investment of public

funds in the form of loans for development, the provision of technical assistance, etc.

The favored position of Latin America with the United States is written into the latter's tax legislation. Certain corporate income earned in the Western Hemisphere, outside of the United States, is taxed at 38% instead of the 52% imposed on such income earned anywhere else in the world. In the post-war period, two-thirds of United States direct private investment abroad has been in Canada and Latin America. Today some $6 billions of private American capital is invested in Latin America, and over one and one-half billions of public funds. In the last year the International Bank, whose resources are now mostly provided by the United States capital market, made loans to six Latin American countries, totalling $111 millions.

It is not a simple matter to spend great sums in Latin American countries in ways that will demonstrably contribute to the national economy and raise the living standards of those who need it. It should be recognized that the capacity to absorb foreign capital depends upon the degree of development achieved by the individual country economies.

In the daily round of contacts, officers may and probably will encounter new and invidious comparisons as to the relative benefits of United States assistance in Latin America and in other areas. These officers may have ideas for developing additional arguments in refutation; and if so, should advise the Department and the Agency of the nature of such arguments, so that they may be made generally available to the missions.

Dulles

57. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

[Washington,] March 18, 1955.

SUBJECT

White House Dinner on March 29 to Discuss Export-Import Bank Lending

About March 4 Senator Capehart talked to the President about the desirability of intensifying Export-Import Bank lending in Latin America. As a result, the President has scheduled a dinner for the evening of March 29 at which he proposes to discuss the whole problem of U.S. Governmental financing of economic development in Latin America.

The guest list includes:

The President
Sam Anderson
Randolph Burgess
Arthur F. Burns
Homer E. Capehart
Joe Dodge
Glen Edgerton
Peter Grace
Gabriel Hauge
Henry F. Holland
Herbert Hoover, Jr.
George M. Humphrey
Nelson Rockefeller
Harold E. Stassen
Samuel C. Waugh
Sinclair Weeks

Nelson Rockefeller has sent me an outline of material that he is preparing for the conference. It pursues the following pattern:

1. Comparison of gross national production and rate of investment in Latin America with that in Canada, U.S.A. and Western Europe. This apparently would indicate extent to which situation in Latin America must be improved.
2. Estimate of the desired future investment flow in Latin America with statement of five and ten year goals for investment. These goals appear to be the amounts of investment necessary to increase per capita production in Latin America by two percent a year.
3. Estimate of existing rate of investment from public and private sources.
4. Definition of the gap between the rate of investment indicated by the "goals" indicated under (2) above and existing public and private investment flow shown in (3).

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[1] Source: Department of State, Central Files, 103–XMB/3-1355. Confidential. Addressed also to Under Secretary Hoover. Attached to the source text is a note from Overby to Hoover, dated March 31, which reads: "Returned per your request. Thanks very much."

5. Analysis of measures appropriate to ensure that the Export-Import Bank can meet this gap.

The foregoing outline condensed from that handed me by Mr. Rockefeller troubles me because:

1. It resembles somewhat the philosophy of the United Nations Economic Commission for Latin America and of those in our own Government who have fought for large grant aid programs and "soft loan" programs.

This philosophy begins by defining the rate of capital investment needed in Latin America. That apparently is the purpose of the comparison between Latin America and Canada, U.S.A. and Western Europe in the above outline. The ECLA approach next determines the amount by which the existing flow of investment capital in Latin America must be increased to achieve the pre-established goal. The final step is to call upon the United States to make that amount of capital available.

Under the ECLA presentation the United States is to make that amount of capital available through grant aid and soft loans. Under this presentation we would apparently accomplish the results through modification in the policies of the Export-Import Bank.

The ECLA philosophy and those resembling it have certain clear defects, it seems to me. One is that no goal determined by the method suggested can be achieved without resort to grants and soft loans. We were successful in overcoming this approach to United States Government financing when it was broached at the Caracas Conference, when it was advanced by certain U.S. agencies in the course of our preparations for the Rio Conference[2] and when it was presented at the Rio Conference by the ECLA group. It appears that it may now come up in connection with the Export-Import Bank.

2. This ECLA approach seems to me to reflect a fundamental, basic defect in reasoning which has pervaded much of our thinking on financial aid and technical assistance, a defect which hurts our foreign relations, creating for us unnecessary problems in the hemisphere. I shall undertake to outline briefly my thoughts on this subject.

This defect arises from the natural tendency of some planners to measure how far Latin America falls short of the economic advantages of more fortunate areas, and then elaborate plans to eliminate that gap. In my judgement, such an approach in our foreign relations

[2] Reference is to the meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly called the Rio Economic Conference), held at Quitandinha, Brazil, November 22–December 2, 1954; for documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

ignores the best interests of the United States, inevitably creates resentments against the United States, implies expense wholly unnecessary to achieve the purposes of our foreign policy and, if it serves anybody's interest, serves those of Communism.

The basic purpose of our economic aid in Latin America is not to eliminate its lag behind other areas of the world. Instead it is to use economic aid along with other tools available to us to establish those attitudes in the minds of peoples and governments which will logically produce trust in the United States, voluntary adherence to our world-wide policies and an active desire to cooperate with us.

We should extend financial and technical aid to improve the economic or social well-being of the countries in the area, only when and to the extent that it furthers the basic purposes defined in the preceding paragraph. Regardless of praiseworthy humanitarian considerations, the mere fact that our aid improves economic or social conditions can never justify its extension save in cases of disaster relief. Some good and Christian men in our Government do not share this view and would extend United States aid in many instances where it does not achieve the basic purposes outlined above and even where it hinders them. The considerations which, it seems to me, should determine when we extend aid are these.

In the economic field every Latin American government has certain aspirations. Those aspirations may or may not be those which we would have chosen for them. Nevertheless, they can be recognized and defined, and are very important to the governments who harbor them.

Every Latin American government looks to the United States for assistance in achieving its economic aspirations. Our task is, therefore, to pursue those policies and programs which will convince each Latin American government and people that the United States is loyally and generously helping in the achievement of *their* aspirations and *not* those which we in our superior wisdom have ordained for them. Our policies should, however, be guided by the following principles:

1. Within limits of prudence we should discourage aspirations whose achievement would prejudice United States interests.
2. We should limit United States expenditures to the minimum necessary to convince each government and people that we are in fact assisting them to achieve their aspirations. This level is at times considerably lower than our present aid program.
3. Encourage adherence to a free enterprise rather than a collectivist philosophy.
4. Achieve maximum protection for the legitimate interests of United States business communities at home and abroad.

Pursuit of this policy will generally cost considerably less than if we determine *ourselves* the level of progress which Latin America should attain and then undertake to achieve it for her.

The natural inclination of a people and of a government is to be pleased and satisfied with reasonably consistent and readily visible economic progress. If these conditions exist, and if they can be attributed in part to aid from the United States, then the attitudes of mind are apt to be those sought by our foreign policy in the area.

On the other hand, if we:

(1) measure how far short Latin America is of achieving the state of development of Canada, U.S.A. and Western Europe and then

(2) indicate that Latin America should not be satisfied unless she achieves those levels, and then

(3) indicate that we are going to share with her the responsibility of achieving those levels.

we create the following very difficult and unnecessary problems for ourselves:

1. Latin America becomes dissatisfied with any rate of development no matter how gratifying in comparison with past performance, that falls short of the rate represented by the indicated goals.
2. Since the attainment of any such goal would inevitably be a long and slow process, the result is automatically to create a state of discontent and resentment for indeterminate period in the future.
3. Since no conceivable programs for aid or financing from the United States will be effective to achieve these goals save over a period of a number of years, resentment is created against the United States for its failure to discharge a responsibility which we have unnecessarily led Latin America to conclude that we will assume.
4. Where the programs are those which we have induced the country to adopt despite its lack of interest or its reluctance, as occasionally happens in the technical aid field, our efforts may generate resentment rather than the mental attitudes we seek.
5. No announced program or financial or technical aid will satisfy Latin America so long as we have assumed publicly the responsibility of raising her to target levels of progress and development. The pressure will always be for programs which will achieve those targets even more quickly.
6. By emphasizing the gap between existing levels of progress and the goal to be achieved rather than emphasizing the really vast progress achieved in recent years in Latin America, we encourage governments to invade the field of private enterprise in an effort to bring about more rapid progress toward goals.

The foregoing considerations explain, I believe, the painful fact that our massive aid programs around the world have often reaped for us a harvest of animosity and suspicion.

Our lending and our technical aid policies in Latin America should, it seems to me, have the following characteristics:

(1) We should avoid committing ourselves to assist in achieving goals which can be represented by trends rather than measurable amounts of progress. We should support economic progress, stabilization of economies, wholesale industrialization, encouragement of increased rates of investment. We should avoid identifying ourselves with specific targets in any of these fields.

(2) We should publicize favorably amounts of progress achieved. We should not emphasize the amount of progress still to be achieved.

Latin America has experienced a rate of economic progress perhaps never exceeded by any comparable area. Yet the average citizen feels that his is an "underdeveloped", "backward", "poverty-stricken," "semi-literate" country. Far from feeling proud of the incredible progress achieved in the area he suffers from a feeling of frustration born of the conviction that his country somehow has not achieved the level of progress which it should.

We, with our frequent emphasis, upon future goals rather then past progress, upon invidious comparisons with more developed areas of the world, have contributed to creating this situation. I have found that many Latin American officials who are actually amazed at the economic progress achieved by their countries are reluctant to comment on it publicly. The principal reason, I believe, is that such admissions weaken their governments' claims for ever greater aid from the United States and (in the case of men unfriendly to us) weakens claims that United States blocks progress in Latin America.

(3) We should constantly emphasize that the overwhelming credit for past progress as well as the responsibility for future progress lies with the Latin American people and governments and not with ourselves. We have been so eager to receive credit for our performances in the past that we have created in the minds of people the conviction ~~that~~ the United States has assumed responsibility for their future progress. When to this situation we add encouragement in the establishment of unachievable goals we guarantee ill will and resentment against us.

(4) We should emphasize constantly that the quickest and surest way toward realization of economic aspirations is through aid to private enterprise.

Our own economic aid should, whenever possible, be to private enterprise rather than to governments. It is as a rule easier to grant loans to governments than it is to private entities. Yet every time we grant a credit to permit some government agency to invade the field of private enterprise we are financing state socialism. The accumulated effect of such credits over the past years has been to give impetus to a basic trend toward collectivist economies which has developed throughout Latin America. Other factors have contributed to this trend but our own policies have been one of those factors.

(5) We should concentrate our technical aid on those programs that satisfy genuine aspirations in the area and place less emphasis on those programs which, while sound and desirable in our own opinion, contribute little toward attitudes of mind which are the goals of our foreign policy.

(6) With respect to the Export-Import Bank in this hemisphere, I would suggest the following course:

(a) Adhere to our presently announced policy which is generous and is consistent with all of the considerations outlined above.

(b) Without ever changing our announced policy, do not hesitate to deviate from it when to do so will achieve our political purposes. I have in mind the making occasionally of loans which could not be defended as basically sound or which enable governments to invade the field of private enterprise, as in the case of the Argentine steel mill loan.

(c) Within prudent limits constantly publicize favorably the activities of the bank.

(d) Reduce the interest rate of the bank to one that is more comparable with rates applicable for similar loans in the United States. The suggestion of a six percent interest rate on a 100 million loan to A.S. & R. for a copper project in Peru was, in my judgment, unrealistic.

(e) Adhere to present periods of repayment because it appears that substantial amounts can be lent on these terms. However, be prepared to renew and extend loans generously. An extension of term in the future may well serve our foreign policy almost as much as a new loan.

(f) Encourage the directors of the bank to travel frequently to Latin America, ostensibly to retain contact with existing loans, but actually to look constantly for new loans consistent with the bank's policy.

(g) Have our embassies be constantly on the alert for possibilities of good loans to governments, but particularly to private enterprise which can be reported confidentially to the bank.

(h) Try to encourage private investors to ask for Export-Import loans for sound industrial projects which we learn would otherwise be undertaken by government entities.

(i) Give the Export-Import Bank preference over the International Bank in making certain loans, particularly those which can be made to private enterprise without governmental guarantee.

(j) Actively encourage governments to utilize their borrowing capacity for such projects as roads, irrigation projects, etc. in which private enterprise is not reasonably interested.

At and before the Rio Conference we forestalled determined and well planned campaigns to commit us to participation in an inter-American bank. Our best argument was the commitment to "intensify substantially" the lending activities of the Export-Import Bank in Latin America. Our next economic conference is scheduled to be held in Buenos Aires some 18 months hence.[3] The proponents of an inter-American bank, of grant aid programs and soft loan programs

[3] Reference is to the Economic Conference of the Organization of American States (commonly called the Buenos Aires Economic Conference); see Documents 135 ff.

will be working assiduously during the interim. If we expect to defeat them again in Buenos Aires, we must during this period build up a record of lending for the Export-Import Bank which will answer accusations that the United States is not affording sufficient financial help to the economic development of Latin America. To accomplish this, we must give immediate, urgent attention to policies and measures which will increase sound lending by the bank.

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58. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, March 18, 1955.

SUBJECT

Inter-American Highway

Problem:

Announcement by the Administration that it will support a program to complete the Inter-American Highway in three years.

Discussion:

As a result of his trip through Central America, the Vice President is very anxious that an announcement be made that the Administration will support a program to complete the Inter-American Highway in three years.[2] He believes that rapid completion of the Highway will assure maximum benefits to the United States from a program to which we are already committed and on which we have moved with such slowness in the past as to diminish its value to our foreign relations. I agree with him.

Since the Vice President's return, meetings have been held with the Bureau of the Budget, Bureau of Public Roads, the Department of Commerce and the Export-Import Bank as to how this objective can be accomplished. The Bureau of Public Roads has estimated that

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[1] Source: Department of State, Central Files, 810.2612/3–1855. Official Use Only. Drafted by Nolan and initialed by Holland. Concurred in by Henderson; Bishop; Edward B. Wilber, Deputy Controller and Budget Officer; Corbett; and Neal.

[2] Between February 6 and March 5, Vice President Nixon undertook a good will tour of 10 countries in Central America and the Caribbean. For text of a statement by the Vice President to correspondents at Panamá on February 26 concerning the Inter-American Highway, see Department of State *Bulletin*, April 11, 1955, pp. 596–597.

such a program will cost $112,000,000 of which $75,000,000 will have to be appropriated by the Congress on the usual two to one basis. The cooperating countries in Central America have been queried as to whether or not they are able and willing to finance their one-third share. All have replied in the affirmative except Guatemala and, possibly Costa Rica, which state that they will require assistance in financing their one-third share. The Export-Import Bank is being approached for the purpose of obtaining a statement that it is prepared to consider favorably applications for loans from Guatemala and, if necessary, from Costa Rica. The Commerce Department through Under Secretaries Williams[3] and Rothschild[4] have stated they will be very glad to present the budget request to the Congress with the Department preparing the justification thereon. The Department is now preparing such statement and will confer with Commerce Department within a few days. The Vice President has stated that he has mentioned the desirability of this project to the President and to the Cabinet.

Recommendation:

It is recommended that you raise this matter at the Cabinet Meeting or the National Security Council for the purpose of obtaining a decision in order that the desirability of completing the Inter-American Highway in three years can be announced as Administration Policy immediately prior to presenting the proposal to Congress. If you concur, a statement will be prepared for your use.[5]

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[3] Walter Williams.

[4] Louis S. Rothschild, Under Secretary for Transportation.

[5] Attached to the source text is a note to Hoover from Scott, March 22, which states in part that Holland's recommendation "does not take into account the normal procedures which are involved in Cabinet or NSC consideration of such policy." According to Scott, "a simple memorandum to the President" recommending speedy completion of the highway would be sufficient. The note also contains, however, the following handwritten notation, evidently by Scott: "Not seen by U. Holland & Raab placed on Cabinet Agenda." The source text contains the following further handwritten notation by Scott: "Will be in cabinet March 25."

59. Minutes of a Cabinet Meeting, The White House, Washington, March 25, 1955, 9:05–10:45 a.m.[1]

THE FOLLOWING WERE PRESENT

President Eisenhower

Vice President Nixon
Sec. Dulles and
Asst. Sec. Holland (in part)
Sec. Humphrey
Sec. Wilson
Mr. Brownell
Deputy PMG Hook
(for Mr. Summerfield)
Sec. McKay
Sec. Benson
Sec. Weeks
Sec. Mitchell
Sec. Hobby
Deputy Director Brundage
(for Mr. Hughes)
Gov. Stassen
Dr. Flemming
Chrm. Young
Gov. Adams
Gen. Persons
Mr. Harlow (in part)
Gen. Cutler
Gov. Pyle
Mr. Rockefeller
Dr. Hauge
Col. Goodpaster
Mr. Shanley
Mr. Murray Snyder
Mr. Rabb
Mr. Minnich

[Here follows discussion of "The Disarmament Question".]

Inter-American Highway—After distribution of a map of the Highway, the Vice President recommended that the United States accelerate the construction program to which we are already committed, and thus to accomplish it in three years instead of in fifteen or twenty. He believed completion of the Highway would result in political benefits from improved Latin-American relations, economic benefits from development of the economies of the Latin American states and from increased "tourism", and perhaps some military benefits. He described how this project would provide the essential economic aid for Guatemala without having to single out that country for an aid program.

The Vice President stated that an additional authorization would be required from Congress and also a larger appropriation than we currently intended to ask. He stated that Commerce had been consulted, that Budget is aware of the problem and is preparing financial estimates, and that the House Committee is very sympathetic although it will require a statement of Administration position.

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[1] Source: Eisenhower Library, Whitman File, Cabinet Meetings. Confidential. Prepared by Minnich.

The President asked several technical questions about the authorization, road building in the tropics, and distances. Mr. Holland supplied appropriate answers. The Vice President indicated that only Guatemala would be hard pressed to provide its share of the financing and that a loan for this purpose could probably be secured from the Export-Import Bank. Sec. Benson ascertained that the Bureau of Public Roads had sufficient authority to prevent overloading and subsequent deterioration of the Highway.

Mr. Dulles and Mr. Holland spoke in favor of acceleration, whereupon the President asked Sec. Humphrey if he wished to comment before adoption of a position. The Secretary jovially replied that it appeared as if the Treasury had been effectively tapped.

Sec. Holland indicated that the State Department and Commerce could cooperate in following up this decision. The Vice President believed a Presidential letter or message would be desirable and the President asked Mr. Holland to provide a draft. Gov. Stassen warned against making any reference in the message to the possibility of any loans. The Vice President agreed that it would be a mistake to get into any big program of grants to the Latin American countries.

Mr. Brundage said that there was sufficient authorization at present for going ahead and that Budget would prepare a supplemental appropriation request to go to the Hill. The President concluded the discussion with a remark that this project should be done well, for if there was anything he really hated it is to talk big and do little.[2]

[Here follows discussion of the following agenda items: "Attorney General Recommendations Concerning Anti-Trust Legislation (CP–24)"; "Wartime Organization for Economic Stabilization (CP–23)"; "Regional War Resource Coordinators (CP–22)"; and "Public Information".]

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[2] A memorandum to Assistant Secretary Holland from Hanes, March 30, records the Cabinet action on the Inter-American Highway as follows:

"The Administration will recommend acceleration of the Inter-American Highway Construction Program for the purpose of building the highway in three years.

"The Department of Commerce is to prepare, with the support of the Department of State, the necessary supplemental appropriation request and the necessary additional authorization legislation for submission to the Bureau of the Budget." (Department of State, Central Files, 810.2614/3–3055)

60. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, March 29, 1955.

SUBJECT

Export-Import Bank Policy in Latin America

At the White House dinner tonight the policy of the Export-Import Bank in Latin America is to be discussed. My views on this matter are set forth below.

Present Export-Import Bank Policy in Latin America

The Bank's present policy was announced by the United States Delegation at the Rio Conference in more or less the following terms:

Through the Export-Import Bank the United States Government will do its utmost to satisfy all applications for sound economic development loans for which capital is not available from private sources or the IBRD provided that:

1. the project is in the interest of the two governments and
2. the loan is within the borrowing capacity of the applicant as well as the lending capacity and charter powers of the Bank.

Within the foregoing limitations it was stated that the Bank has authority to make loans to governmental agencies, to private enterprise, whether U.S., foreign or mixed, and that the Bank can in its discretion, waive a guarantee by the foreign government where the loan is made to a private borrower.

New Export-Import Bank Policy was U.S. Substitute for ECLA Proposal

The United Nations Economic Commission for Latin America or ECLA prepared for the Rio Conference a lengthy study on means to foster economic development in the area. While a number of aspects of economic development were considered, the overwhelming majority of the energies of the Commission were devoted to developing a case in support of a massive and socialistic U.S. financial aid program for the Latin American countries.

Another ECLA proposal was that the U.S. participate in establishing an Inter-American Bank whose capital would be largely contributed or underwritten by the United States.

The ECLA had developed strong support for its program among certain economists in Latin America. The proposals were studied and

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[1] Source: Eisenhower Library, CFEP Chairman Records. Confidential.

exhaustively discussed by the Sub-Cabinet Committee drawn from all interested agencies of the United States Government to formulate policies for the Rio Economic Conference. That Committee concluded that the ECLA proposals were not only unnecessary to U.S. foreign policy, but their adoption by this Government would be affirmatively prejudicial to our foreign policy objectives in the area. Instead the Committee recommended the financing policy outlined above. These recommendations were reviewed and approved by the NSC.

Importance of Implementing U.S. Policy Regarding Export-Import Bank

At the Rio Economic Conference it was decided that another conference of the same nature would be held in 1956 in Buenos Aires. There the Latin American advocates of the ECLA philosophy of U.S. financing will renew their efforts. If, during the intervening period, the United States has built up a record of activity on the part of the Export-Import Bank which supports our assertions at the Rio Conference, we will be in an exceedingly strong position. If, on the other hand, we have failed in this regard, then, because of our own inactivity, we may be forced into financial programs which, while superficially attractive to the beneficiary countries, are inconsistent with a private enterprise philosophy and with the best interests of the United States itself. A record of intensified activity on the part of the Export-Import Bank cannot be built up during a few months immediately before the Buenos Aires Conference in 1956. It will require constant and resourceful work throughout the entire intervening period.

Why the ECLA Proposal Prejudices the United States

Since the ECLA supporters include the most active opponents of our present lending policies in Latin America, some analysis of their philosophy and its effect on the interests of the United States might be useful.

The essence of the ECLA philosophy is the belief that if certain rather unrealistic rates of capital inflow can be achieved the economic problems of Latin America will be largely solved. Actually, in a number of the countries much more than capital is needed if major obstacles to sound development are to be overcome. The proposed "targets" for capital inflow are so high that, on the supply end they would require extensive uneconomic government loans by us. On the other hand, they exceed the amounts that can be absorbed by Latin America without extensive intervention by governments in industry.

This philosophy is prejudicial to U.S. foreign policy objectives because:

1. It encourages state socialism.

2. New capital will not alone ensure economic progress. But so long as this belief prevails, the argument will be made that no matter how much capital we supply, if the result is not satisfactory the solution is more capital, *higher* targets for capital inflow—and from the U.S. Government. If we do not respond with more capital we play into the hands of those who accuse us of blocking Latin American progress.

If we accept a philosophy that more capital is the answer to economic backwardness, and that the capital must come in large part from our government, then we accept substantial responsibility for the achievement of Latin America's economic aspirations. This means that we will be blamed for the slowness with which some of the Latin American countries are going to develop so long as conditions that have nothing to do with the adequacy of available capital remain as they are.[2]

Our lending and our technical aid policies in Latin America should have the following characteristics:

(1) We should commit ourselves to assist in achieving economic goals which can be represented by trends rather than measurable amounts of progress. We should support economic progress, stabilization of economies, wholesome industrialization, encouragement of increased rates of investment. We should avoid identifying ourselves with specific targets in these fields.

(2) We should publicize favorably amounts of progress achieved. We should not emphasize the amount of progress still to be achieved.

Latin America has experienced a rate of economic progress perhaps never exceeded by any comparable area and considerably better than our own. Yet the average citizen feels that his is an "underdeveloped", "backward", "poverty-stricken", "semi-literate" country. Far from feeling proud of the amazing progress achieved in the area he suffers from a feeling of frustration born of the conviction that his country somehow has not achieved the level of progress which it should.

Emphasis upon future goals rather than past progress, upon invidious comparisons with more developed areas of the world, contributes to this situation. Many Latin American officials who are actually amazed at the economic progress achieved by their own countries are reluctant to comment on it publicly. The principal reason may be that such admissions weaken their governments' claims for ever-greater aid from the United States and (in the case of men unfriendly to us) weaken the propaganda claim that the United States blocks progress in Latin America.

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[2] Following this paragraph in the source text appears a sentence fragment: "rapid progress towards goals." Presumably this resulted from the retyping of the original draft. No other copy of the memorandum has been found in Department of State files or at the Eisenhower Library.

(3) We should constantly emphasize that the overwhelming credit for past progress as well as the primary responsibility for future progress lies with the Latin American people and governments and not with ourselves. If we are too eager to receive credit for our past performances, we create in the minds of people the conviction that the United States has assumed responsibility for their future progress. If to this situation is added encouragement in the establishment of unachievable goals, ill will and resentment against us are assured.

(4) We should emphasize constantly that the quickest and surest way toward realization of economic aspirations is through aid to private enterprise.

Our own economic aid should, wherever possible, be to private enterprise rather than to governments. It is as a rule easier to grant loans to governments than it is to private entities. Yet when we grant a credit to permit some government agency to undertake a project which private enterprises would have undertaken we are financing state socialism. The accumulated effect of such credits over the past years has been to give impetus to a basic trend toward socialist economies which has developed throughout Latin America. Other factors have contributed to this trend but our own policies have been one of those factors.

(5) We should actively encourage governments to utilize their borrowing capacity for such projects as roads, irrigation projects, etc., in which private enterprise is not reasonably interested.

(6) We should concentrate our technical aid on those programs that satisfy genuine domestic aspirations in the area rather than upon those programs which, while sound and desirable in our own opinion, contribute little toward attitudes of mind which are the goal of our foreign policy.

(7) With respect to the Export-Import Bank in this hemisphere, the following policies are suggested:

(a) Adhere to our presently announced policy which is generous and is consistent with all of the considerations outlined above.

(b) Without ever changing our announced policy, be prepared to deviate from it somewhat when to do so is prudent and will achieve our political purposes. This would contemplate occasional loans which could not be defended as basically sound or which enable governments to invade the field of private enterprise.

(c) Within prudent limits constantly publicize favorably the activities of the Bank.

(d) Reduce the interest rate of the Bank to one that is more comparable with rates applicable for similar loans in the United States.

(e) Be prepared to extend present periods of repayment where the type of loan and the characteristics of the borrower make it desirable.

(f) Encourage the directors of the Bank to travel frequently to Latin America, not only to retain contact with existing loans, but also to be alert for new loans consistent with the Bank's policy.

(g) Have our embassies be constantly on the alert for possibilities of good loans to governments, but particularly to private enterprises, both U.S. and foreign, which can be reported confidentially to the Bank.

(h) Try to encourage private investors, to ask for Export-Import Bank loans for sound industrial projects which we learn are being considered by their governments as invasions of field of private enterprise.

(i) Permit the Bank to sell good loans out of its portfolio to private institutions.

(j) Permit the Bank to market its own securities as the IBRD does.

(k) Intensify the Bank's general statistical and economic studies in Latin America.

The foregoing policies, it is submitted, will advance us toward these goals of our foreign policy in this hemisphere:

1. To produce the attitude of mind defined earlier in this memorandum,

2. To contribute toward the establishment of strong, self-reliant economies in the hemisphere,

3. To bring governments to rely on private enterprises, rather than state enterprise, to exploit the many opportunities for establishing new enterprises, and enlarging existing ones that exist in the area, and

4. To accomplish these ends with a minimum of cost to our Government.

61. Memorandum From the Director of the Office of International Financial and Development Affairs (Corbett) to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

Washington, March 29, 1955.

SUBJECT

Mr. Holland's Memorandum on Export-Import Bank[2]

For your use there follows a few comments on Henry Holland's paper on the Export-Import Bank.

I. In the first place, there is an overemphasis on the importance of the ECLA proposals in relation to Bank policy. A vigorous and active Bank in Latin America is something we have long wanted. Such an institution will serve our interests and *may* reduce discontent created by the ECLA report. This discontent is worth worrying about but much more important is the creation of favorable and fair economic conditions in Latin America. An enlightened loan policy can contribute but trading conditions and domestic policies of the countries are perhaps more important.

How to deal with ECLA and Prebisch[3] is another matter. The ECLA report plays upon suspicions and frustrations in a skillful manner and provides a convenient explanation of some of the economic difficulties in Latin America, properly attributable in major part to deficiencies of the countries themselves. Our task is to get the countries to recognize that their own actions underlie much of their problem and cease seeking a "foreign scapegoat". For obvious reasons it will not be easy and, indeed, may not be possible. In any event, mixing a discussion of the Bank with this subject tends to obscure a consideration of both problems by the process of oversimplification.

There is also a great deal in the paper on private enterprise, initiative and investment. Here he seems to be setting up a straw man unless he has some specific cases which concern him. There is little, if any, evidence of complaints from private business that the Bank has encouraged socialization of industry and, as far as I know,

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[1] Source: Department of State, Central Files, 103–XMB/3–2955. Confidential.

[2] Apparent reference to Holland's memorandum, *supra*. The page numbers and recommendation indicators cited herein, however, do not correspond exactly to those in Holland's memorandum. No other memorandum from Holland to Waugh on the subject of Export-Import Bank lending policy with a late March 1955 date has been found in Department of State files.

[3] Raúl Prebisch, an Argentine economist; Executive Secretary, Economic Commission for Latin America (U.N.).

no attempts have been made. The closest we have come to it, I suppose, is the Argentine steel mill but this case rather proves the difficulty of conclusive determination of the issues. On the other hand, the Bank has religiously stayed away from oil development. With respect to public utilities, I believe that American and Foreign Power has received a full measure of support from the Government and the Bank in the maintenance of their position.

II. Specific recommendations respecting the Bank are made on pages 6 and 7 of the memorandum.

Recommendations (d) and (e) relate to interest and maturity of the Bank's loans. While one might argue that the interest rate formula produces too high a rate, nothing prevents the Bank from extending maturities. On long-term projects the Bank now lends at about 20–25 years. Should these be extended? With respect to the interest rate a more valid comparison than the one offered—rates on similar loans in the U.S.—would be the rate at which the IBRD lends. Cost of money and Export-Import Bank profits would permit lower rates but beyond a request to review and a suggestion that loans to private borrowers should not pay a premium, I have now no specific suggestions.

Recommendation (i) suggests giving Eximbank preference over IBRD loans, "particularly those which can be made to private enterprise without governmental guarantee". Actually, the IBRD cannot make loans without government guarantee. Loans which have a special national interest should be handled by Export-Import Bank (e.g. Inter-American Highway loans). Or is it the notion to convert IBRD loans into private loans and take them to the Eximbank? This seems unlikely. The recommendation is very confused.

The Bank is willing to sell loans out of its portfolio with or without its guarantee as suggested in recommendation (j).

The recommendation (k) that the Bank market its own securities has been kicked around from time to time. The Bank has never pleaded shortage of money for not making loans. There is a disposition against fragmenting U.S. Government financing by allowing agencies to issues securities which are backed by the full faith and credit of the U.S. In any event, this doesn't seem to get at the problem of expanding the Bank's activities.

In general, the recommendations are not developed or supported by the discussion. Consequently, a proper assessment of them is not easy.

III. While the Bank's activities have picked up considerably in recent months, there is still an incomplete understanding among borrowers of the type of loans in which the Bank is interested. The Bank could do more work country by country on the projects it

believes to be important and could do much more about encouraging the countries to bring forward the right type of project.

The Bank is also reaching the point where it is concerned about credit to some countries (Chile, Bolivia, Brazil) and this is a matter which we should explore since our dependence in the Bank is great in Latin America.

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62. Editorial Note

On April 1, the White House released identical letters from President Eisenhower to Vice President Nixon and Speaker of the House of Representatives Sam Rayburn supporting acceleration of the Inter-American Highway construction program. The letters indicate that the President would soon transmit to Congress a request to authorize appropriation of approximately $75 million for such purpose. For text, see Department of State *Bulletin,* April 11, 1955, pages 595–596. Appropriation legislation was subsequently enacted as Public Law 129, approved July 1, 1955 (69 Stat. 244), and Public Law 219, approved August 4, 1955 (69 Stat. 452).

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63. Letter From the Secretary of State to the Secretary of Commerce (Weeks)[1]

Washington, April 1, 1955.

DEAR MR. SECRETARY: With reference to the budget request which your Department is submitting to the Congress for authorization and appropriations for completion of the Inter-American Highway in three years, I am setting forth the views of the Department of State as to the justification and importance of this program to United States foreign policy.

In my judgment the most effective, and immediate, contribution which this Government can make toward the establishment of

[1] Source: Department of State, Central Files, 810.2612/4–155. Drafted by Neal and Nolan.

strong, self-reliant and durable economies in the Central American republics is to cooperate in the early completion of the Inter-American Highway.

Completion of the highway has long been a clearly established objective of United States policy and the Congress to date has supported the program with appropriations amounting to almost $54,000,000. A major portion of the highway, which begins at our boundary with Mexico and traverses some 3,000 miles through seven countries and terminates at the Canal Zone, is already in use. However, maximum benefits cannot be derived from this present road because there are several hundred miles of impassable sections, as well as portions not in all-weather condition.

Among the benefits which will result from completion of the Inter-American Highway within the next three years are the following:

1. *Political stability.* International communism recently dominated the political institutions of one country in this area, but because of a determined people, this threat was repulsed. We must not fail to exert our every effort to see that communism does not return to the Americas. The political strength of our neighbors to the south is essential to the free world today. The political stability resulting from early completion of the Inter-American Highway would increase the growing influence which these Central American countries and the other republics of this hemisphere are now exerting in world affairs.

2. *Economic development.* It is for our own benefit, as well as for theirs, that we encourage these countries to attain the greatest degree of economic development. Surface transportation is one of the main factors retarding economic development in the area. With completion of the Inter-American Highway will come feeder roads and the opening of undeveloped lands. I am confident that opening the entire length of the Inter-American Highway to all-weather traffic will stimulate economic growth in the area and enlarge opportunities for free trade and new markets. Internal development would result and essential trade relations between the neighboring countries would be stimulated.

3. *Increased trade.* As markets for our exports and as suppliers of our imports, the United States has great ties with the countries through which the Inter-American Highway passes. All but a fractional portion of the vehicles used in the area are of United States manufacture. Since the highway was started, annual exports from the United States to this area have increased many times. It is evident that a partially completed route has been beneficial to United States industry and export trade. A fully completed Inter-

American Highway would give even greater impetus to our trade relations.

4. *Increased tourism.* Tourists from the United States are now spending nearly a billion dollars a year in the Caribbean area. A large and continuous flow of United States tourists over the Inter-American Highway would be an important element in the commerce of these countries which have so many places of interest and natural beauty.

The highway will be a means of travel of an increased number of Central Americans to the United States. The importance of strong cultural and spiritual ties which would result cannot be exaggerated. The expenditures by these visitors will be advantageous to American commerce and industry.

5. *Strategic benefits.* A great number of strategic materials which the United States requires in the defense of a free world are obtained from the area to be served by this highway. Many of these countries are cooperating with the United States in hemisphere defense for which purpose strategic sites have been developed; the highway would link these points and would be an auxiliary route in the transport of strategic materials.

The United States, together with the cooperating countries, has already made large expenditures toward this highway program, but if we are to obtain maximum returns from our contribution and are to share with those countries the beneficial results of economic and political stability, the Inter-American Highway should be completed within the next three years.

Because of the forementioned political, economic, and strategic factors, the Department of State feels that the budget request you are making to the Congress is of immediate importance to our foreign relations. I wish to assure you my complete support and cooperation in this program to bring about early completion of the Inter-American Highway.

Sincerely yours,

John Foster Dulles

64. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, April 27, 1955.

SUBJECT

Are Investment Guarantee Programs Desirable?

Although there was originally some hesitation in ARA to endorse fully the investment guarantee program,[2] it is our present view that this program offers limited advantages which should be exploited.

When the investment guarantee program was first announced in 1952, the following reasons were adduced for not putting it into operation in the other American republics:

(1) The program seemed to take away from the Latin American countries some of the responsibility for taking the initiative themselves to improve the climate for private investment.

(2) As the program envisaged allowing the United States Government to take over a claim of one of its nationals and settle it through diplomatic channels rather than through the courts of the foreign country, its acceptance to some extent would involve an abandonment by the Latin American countries of their traditional support for the Calvo Doctrine; we were reluctant to press them too hard on this score.

(3) The guarantee against expropriation might in a sense encourage foreign countries to expropriate private foreign property and relieve the entrepreneur of the responsibility of so conducting his affairs as to avoid expropriation.

(4) The plan was to apply only to new investments and hence appeared to discriminate against existing investments.

As a compromise measure, information regarding the program was furnished to eight of the other American republics but did not arouse much interest. The only country which signed an agreement was Haiti. More recently, I decided to support the program on the ground that accepting the program is one concrete step the Latin American countries can take to attract private capital.

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[1] Source: Department of State, OCB Files: Lot 62 D 430, Latin America—1955. Confidential. Drafted by Krieg at the request of Max Bishop, in response to an inquiry from Under Secretary Hoover concerning the desirability of the investment guaranty program.

[2] For a statement of ARA's position regarding the investment guaranty program, made at the Secretary's staff meeting on September 18, 1952, by Assistant Secretary of State for Inter-American Affairs Edward G. Miller, Jr. see the minutes of that meeting, printed in *Foreign Relations*, 1952–1954, vol. IV, p. 189.

As a result of a trip throughout the area by Mr. Pittman of FOA,[3] several countries expressed interest and in recent months agreements have been signed with Costa Rica, Guatemala and Ecuador providing guarantees of currency convertibility and against expropriation, and with Peru covering currency convertibility only.[4] No insurance policies have as yet been written under any of these agreements.

[3] Steuart L. Pittman.

[4] For text of these agreements, see 6 UST 665, 673, 843, and 678, respectively.

65. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, May 4, 1955.

SUBJECT

FOA Organization for Latin America

You have asked that I express my views as to how FOA's integration in the Department should be handled with respect to Latin America.

In a number of ways the situation of FOA in Latin America is quite different from the rest of the world:

1. Out of a total budget of $3.5 billion only $52.5 million or about 1½ per cent is scheduled for economic assistance to Latin America.

2. Our policies in Latin America contemplate no grant aid programs, no large military programs, no soft loan programs. Instead we depend upon close, constant, and effective work with each of the countries to solve its particular economic problems. This means that we must have a great deal of knowledge about the details of the economy of each country, and we must intervene almost on the working level in the problems of many of these countries. The result is that every day in most of our embassies our Ambassador and his officers are working in many areas of the field covered by FOA. This is a situation probably peculiar to our hemisphere, i.e., a very

[1] Source: Washington National Records Center, ICA Director's File, FRC 61 A 32, Box 309, Latin America. Confidential.

small FOA program a considerable part of which overlaps the economic work of our embassies.

In view of the foregoing, inevitably sharp differences of opinion have developed between FOA and ARA. I am afraid that the same will happen if FOA activities are conducted as they have been in the past in a semi-autonomous unit in the Department. I believe that we will achieve: (1) far more harmonious and effective work in this field, and (2) great savings in money and personnel if technical assistance operations in Latin America are entrusted to the Institute of Inter-American Affairs[2] and it, in turn, is placed in ARA with which it was at one time very closely associated, the Assistant Secretary of State for Inter-American Affairs having been the Chairman of the Institute's Board of Directors.

Under such an arrangement the ICA would furnish to the Institute policy advice and coordination on a worldwide basis as well as functional services. ARA would, on the other hand, direct the Institute's operation and its policies insofar as they relate exclusively to the Latin American area.

Like every plan this has advantages and disadvantages. The obvious disadvantage is that you might have one arrangement for FOA activities in Latin America and another for those activities elsewhere in the world. The advantage, however, is that the operations would, in my judgment, be far more effectively conducted and would more faithfully reflect and effectively implement our policies in this hemisphere, and that there would be a very substantial saving in money and manpower. Therefore, I believe that the advantages substantially exceed the disadvantages and I recommend this arrangement to you.

I also recommend, in order to assure more efficient and effective operations in the Latin American countries, that the FOA personnel in the field be integrated into the embassies and operate under an Economic Counselor or chief economic officer who, in addition to his regular embassy duties, would take the place of the present USOM chief.[3]

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[2] The Institute of Inter-American Affairs (IIAA), a nonstock corporation wholly owned by the U.S. Government, was incorporated in 1942 under the laws of Delaware. In 1947 it was reincorporated under the Institute of Inter-American Affairs Act (P.L. 369, 61 Stat. 780). On June 30, 1955, the Institute (which had previously functioned under the Foreign Operations Administration) was transferred to the Department of State and became attached to the International Cooperation Administration. From 1950 on, the Institute administered the Latin American portion of the worldwide technical cooperation program.

[3] Attached to the source text is a handwritten note from Under Secretary Hoover to John B. Hollister, May 11, which reads as follows: "There is a good deal in what Mr. Holland points out, although I do not necessarily agree with all of his conclusions. I shall be glad to talk with you about it." Hollister was appointed Director of the International Cooperation Administration (ICA) on July 1, 1955.

66. Memorandum From the President's Special Assistant (Rockefeller) to the President[1]

Washington, June 1, 1955.

SUBJECT

Export-Import Bank Loans for Latin American Development

Recently Joe Dodge sent to me a memorandum which Henry Wallich prepared for Clarence Randall on the operations of the Export-Import Bank.[2] This seemed to me to present such a thoughtful appraisal of the Bank's operations together with some thoroughly constructive suggestions for expanding its operations that I thought I should bring it to your attention.

In a number of respects, the suggestions offered by Mr. Wallich parallel those which were presented by Henry Holland at the White House dinner on March 29, which you arranged to discuss steps that might be taken to increase U.S. capital investment in Latin America. I am very much concerned that the impetus you provided on that occasion should not be allowed to lapse through inertia in the Federal establishment.

Recommendation:

That you send a follow-up memorandum along the lines of the attached to Secretaries Dulles, Humphrey and Weeks, with copies to General Edgerton of the Ex-Im Bank, Under Secretary Hoover and Assistant Secretary Holland.

Nelson A. Rockefeller[3]

[Attachment]

May 25, 1955.

Draft of Proposed Memorandum from the President to follow up on White House Dinner on U.S. Capital for Latin American Development

Memorandum For:_____

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[1] Source: Department of State, E Files: Lot 60 D 136, Papers From Mr. Waugh. Confidential. Rockefeller sent a copy of this memorandum to Assistant Secretary Holland under cover of a letter dated June 1, in which he stated in part the following: "I would appreciate very much having your reactions to this as a useful course of action."

[2] Not found in Department of State files or at the Eisenhower Library.

[3] Printed from a copy which bears this typed signature.

On March 29 at a White House dinner,[4] a number of us discussed the relationship between the growth trend of the Latin American economies and the flow of United States investment and loan capital to that area.

From the data assembled as a background for that discussion it was indicated that, if United States capital were to continue to provide the same relative stimulus to Latin American growth as it had in the recent past, a progressive step up in combined private direct investment and public development loan disbursement from the 1947–54 annual average of $500 million, to a $700 million level by 1958 was called for.

In our discussion of the prospects, it was suggested that there was reasonable expectancy that U.S. direct private investment in Latin America, under the stimulus afforded by the current Administration program, would increase in the next few years from the $275 million level of 1954 to at least the $400 million of its annual average during the post-war period; there was the further expectancy that IBRD loan disbursements will average $100 million or more per year.

Thus, if Export-Import Bank disbursements in Latin America can be stepped up from their 1954 level of $110 million to about $200 million over the next few years, we would be in a position to demonstrate that the United States was continuing its capital support of a healthy growth economy in the twenty Republics. Since the Export-Import Bank operations are most directly amendable to our policy direction, I should [like] very much to have your opinion as to the practicality of setting up a $200 million annual rate as a target goal for Export-Import Bank loan disbursements in Latin America by 1958.

I am fully conscious of the limitations of translating such generalized target aims into sound and effective action, since the flow of private direct investments will necessarily be determined by judgments of the balance between earning opportunities and risks, and the volume of development loans by the merit of applications submitted from individual countries weighed against their respective capacities to service additional foreign debt. Nevertheless, I believe that economic progress in Latin America is sufficiently important to our national interest to warrant exceptional efforts to assure that all measures are taken that promise to increase U.S. capital flows to Latin America by at least the indicated dimension without departing from sound practice.

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[4] See Document 60.

I shall be very appreciative if you will give this suggestion your attention, and let me have your reaction, first as to its feasibility, and second as to the measures that might be taken to give it effect.

I have been reminded of this by a memorandum upon the Export-Import Bank by Mr. Henry C. Wallich that has been brought to my attention, and a copy of which is enclosed.[5] I was genuinely interested in Mr. Wallich's suggestions as to how the operations of the Bank might be expanded and utilized to promote increased private foreign investment. In a number of respects his suggestions seemed to me to parallel closely those presented by Henry Holland at the March 29 White House dinner.

Again I should be very appreciative of your advice and comment upon the merit of the Wallich and Holland proposals and the degree to which you think it is practicable to put them to use.

[5] Dated April 22, not printed.

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67. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Special Assistant to the President (Rockefeller)[1]

Washington, June 3, 1955.

DEAR NELSON: Thank you for letting me have an opportunity to look over the report prepared by Mr. Wallich for Mr. Randall on the Export-Import Bank and your draft of a proposed memorandum for the President.

I am impressed by the Wallich report. His conclusions that if we are going to diminish grant aid we must emphasize aid through sound loans; that a policy of public lending need not displace or compete with private sources of capital; that the Export-Import Bank should make developmental loans as well as those designed to finance the exportation of United States products are all eminently sound. On the latter point, I stated in a speech before the Pan American Society in New York on October 27, 1954:[2]

[1] Source: Department of State, E Files: Lot 60 D 136, Papers From Mr. Waugh. Confidential.

[2] The full text of the speech is printed in Department of State *Bulletin*, November 8, 1954, pp. 684–690.

" . . .[3] the United States proposes to intensify and expand the activities of the Export-Import Bank. Through it we shall do our utmost to satisfy all applications for *economic development loans* that fulfill certain sound and logical standards."

This recognition that the Bank will be active in the field of economic development was cleared by Treasury, Commerce, and the Export-Import Bank itself.

I also adhere to the recommendations set out at the conclusion of Mr. Wallich's memorandum, although I feel that those in my own memorandum of March 29 are more complete and would like to see each of the latter implemented.

On the other hand, I would hope that you could adopt a somewhat different approach in your own draft of memorandum. There, the emphasis is placed on a loan target. I am entirely in accord with you on the great need to intensify the activities of the Bank; nevertheless, as I set out in my memorandum of March 29, I believe that the interests of the United States are affirmatively prejudiced if this goal is pursued through the establishment of a predetermined loan target.

You suggest a $200 million annual target. If the policies which I have urged or those recommended by Mr. Wallich are implemented, the activities of the Bank will, I believe, exceed these figures. In fact, the existing rate of authorizations, if sustained, will probably lead to a disbursement rate exceeding that set out in your memorandum.

If we establish a target for Export-Import Bank lending, that target is inevitably going to become known in Latin American governmental circles. The reaction of some will be that it is too small, no matter what might be its amount. The reactions of others will be that the assurance of the availability of this amount of credit makes unnecessary active efforts to attract capital from private sources. Others will start a scramble to direct what they will calculate is their country's share into pet projects.

On the other hand, if we adhere to our announced policies of satisfying *all* economic development loans which meet the standards we have established, and if the Bank adopts a more aggressive role, all of the foreign policy objectives that we both seek will be attained, but without the disadvantages indicated above.

I would be glad to discuss this further with you, if you wish, and am grateful for your letter and its attachments.

With best wishes,

Sincerely,

Henry F. Holland[4]

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[3] Ellipsis in the source text.

[4] Printed from a copy which bears this typed signature.

68. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

Washington, September 2, 1955.

SUBJECT

ICA Loan Programs in Latin America

On August 30 I wrote the Secretary recording my strong opposition to the proposal that ICA make an attempt to lend $10 million of the $38 million now appropriated as grant aid to Latin America.[2]

I am advised that at an inter-agency meeting on September 1 the Department of State approved this proposal and Treasury recorded its opposition to any program of soft loans in Latin America.

I should like to renew my opposition and respectfully urge that the decision be reviewed and reversed. My reasons are set out below.

At the Caracas Conference in March of 1954 the Latin American countries led by the United Nations Economic Committee for Latin America demanded that the U.S. undertake programs of grant aid and soft loans in Latin America. The issue was postponed to the Rio Conference in November of 1954. U.S. policy on these questions was hammered out during the five months from April through August of 1954. FOA and several other agencies strongly believed that we should engage in these types of aid. State, Treasury, Eximbank and a number of other agencies opposed. FOA wanted to get into the lending field itself or, in the alternative, to create new lending agencies in the area.

The policy finally adopted after long debate was that there would be no general grant aid programs, no soft loan programs, no new lending agencies; that FOA would not get into the credit field. To make this program acceptable to Latin America we emphasized our determination to expand Latin America's trade opportunities, to afford the area generous sources of credit through the Export-Import Bank and to intensify our technical assistance programs. One exception was admitted. It was conceded that in cases of real and

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[1] Source: Washington National Records Center, ICA Director's File, FRC 61 A 32, Box 309, Latin America. Confidential. Routed through the Executive Secretariat, under a covering memorandum by Holland to the Acting Secretary which reads: "I am sending you a longer memorandum opposing the extension by ICA of soft loans in Guatemala and Bolivia. Bearing on the same subject, however, I have just been advised by Eximbank and IBRD standards Bolivia is 'all loaned up', and they have been told so." Copies of the memorandum, which is unsigned, were sent to Hollister, Waugh, and Nolting.

[2] Not found in Department of State files.

temporary emergency grant aid would be extended on a short term basis for the period of the emergency. Haiti qualified under this after the hurricane; Guatemala did after her revolution and Bolivia did after falling tin prices produced near starvation conditions.

The debate on these policies was so intense that the matter went twice before the NSC.

Beginning in September of 1954 we undertook an intense program to persuade the other Latin American countries to accept these policies in lieu of those demanded by them at Caracas. At the Rio Conference the ECLA adherents "swung their Sunday punch". We maintained our position—no general grant aid programs, no soft loans, no new lending agencies.

The fight is not over. ECLA is now having its annual meeting in Bogota. A number of the speakers have strongly renewed all of the original proposals. We have another economic conference at Buenos Aires in 1956, and the same issues will have to be fought out there.

Against this background, the proposal that ICA try to negotiate soft loans (40-year term, no payments for the first three to five years) of $10 million in Guatemala and Bolivia causes me deep concern. This proposal seems quite innocent from a domestic point of view. We have appropriated $38 million of grant aid in Latin America. It would be an improvement if ten of it could be extended on a loan basis.

From the Latin American point of view, the decision will look very different. Those whose appetites for soft loans are still keen will seize upon this decision and try to blow it up into a major change of policy. We will be very hard put to deny it. This is a new kind of aid not presently available in Latin America. This is a new lending agency in the area. This is a departure from our battle-scarred policy of only good sound bankable loans through the IBRD and the Eximbank.

If these loans are made in Guatemala and Bolivia we shall very shortly receive applications for similar loans from a number of countries where we presently have no grant aid programs. The Mexican Government has for six months been trying to negotiate a loan from the FOA–ICA. The people in our own government who took that position in 1954 will try to reopen the issue and demand that ICA consider applications from other countries.

We have two roads we can follow. One is to close out by orderly steps grant aid and soft loans in this hemisphere—leaving the development of the hemisphere up to private capital supplemented by the kind of loans that Eximbank and IBRD extend. The other road is to slip back into the kind of aid programs that we still find it necessary to establish in other parts of the world. We have made enormous progress in the last year and a half along the first

road. We had no soft loan programs. I hope that next year we can drop the grant aid in Haiti. Within two years we should be able to stop grant aid in Guatemala. Within a short additional time we should be able to stop it in Bolivia. When that time comes the policies that we now follow in seventeen of the twenty Latin American countries will be followed in all twenty.

I can understand ICA's desire to use Latin America to place some of the money that they must lend. However, the $10 million they hope to lend in LA will not make much difference in their world-wide objective of $330 million. Balanced against this small advantage is the very grave risk that the decision will cost us much of the progress that we have so painfully achieved over the past year and a half. I strongly urge that we not run that risk.

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69. Memorandum From the Deputy Director for Operations (FitzGerald) to the Director of the International Cooperation Administration (Hollister)[1]

Washington, September 8, 1955.

SUBJECT

Loan Program in Latin America—Mr. Holland's memorandum of September 2

I am perfectly prepared to accept Henry Holland's view that we should not make any "soft loans" in Latin America. I am not prepared, however, to agree that this inevitably requires that all of our assistance to Latin America be on a grant basis. The other alternative is to make some of our assistance available to Latin America on a "hard loan" basis. Our legislation does not require loans made thereunder to be "soft" and I am sure that the Congress would want us, insofar as practicable, to make our loans as "hard" as possible.

Henry Holland may argue that the U.S. policy requires that all "hard loans" to Latin America be made by either the International Bank for Reconstruction and Development or the Export-Import Bank. It would be perfectly satisfactory, as far as I am concerned, if either one of these agencies would make assistance available to any

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[1] Source: Washington National Records Center, ICA Director's File, FRC 61 A 32, Box 309, Latin America. Transmitted to Hoover under cover of a memorandum dated September 12 from DeWitt L. Sage, Assistant to Hollister, at the latter's request.

one or all of the three countries, Bolivia, Guatemala, Haiti, on a hard loan basis thereby permitting us to "save" a similar amount of our appropriation. However, I do not believe that either IBRD or EX-IM Bank will, because of the policies which they follow, find it possible to make hard loans to any of these three countries for the purposes for which the assistance is needed. But to argue that, because IBRD and EX-IM under their rules cannot make the necessary assistance available, ICA should make a *grant* of $10 million seems to me to be wholly illogical. If one or more of the Latin American countries concerned can reasonably be expected to pay off a "hard" loan, and I believe Guatemala can, then ICA should make such a loan to that country. To provide money on a grant basis when a hard loan can be fully justified does not seem to me to be sound use of the American taxpayers' money.[2]

[2] Following this paragraph on the source text appears the following handwritten notation addressed to Hoover and initialed by Hollister: "This makes a lot of sense. What do you think?"

70. Memorandum From the Director of the Office of International Financial and Development Affairs (Corbett) to the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi)[1]

Washington, October 19, 1955.

SUBJECT

Memorandum from Mr. Holland to Secretary re "Loan Policy in Latin America"[2]

I would not clear the attached memorandum for the following reasons:

[1] Source: Department of State, Central Files, 103–XMB/10–1955. Confidential. The source text bears the following handwritten notation initialed by Kalijarvi: "This should go back to Holland for him to take up with me."

[2] In this memorandum, October 19, Holland contended that a major increase in Export-Import Bank lending to Latin America was necessary. Although the source next indicates that Holland's memorandum was an attachment, it was not found attached to the source text. Document 81 contains a quote from the October 19 memorandum.

1. Bank lending does not follow a steady monthly or quarterly pattern. Two or three significant loans in the next month or so would alter Holland's conclusion.

2. We know Mr. Waugh's intentions and we know he believes he is under no strictures from the Treasury with respect to a vigorous Bank. Mr. Burgess' call should not be taken as the gospel.

3. Bank lending depends in part upon the interest and initiative of the borrowers.

4. Three loans have been slowed down, each with some measure of State Department intervention (Holland's to be precise)—a $24 million loan to a Brazilian railway, a $35 million loan to Brazilian steel mill and a $25 million loan to a Colombian steel mill. Further, Holland succeeded in getting additional grant money for Guatemala which made a Bank loan to the Inter-American Highway unnecessary.

5. The memo has too panicky a note and the recommendation would not help our relations with the Bank or the Treasury nor would it, in my opinion, alter the probable course of events in Eximbank lending.

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71. Memorandum From the Acting Regional Director for Latin American Operations (Atwood) to the Assistant to the Director of the International Cooperation Administration (Sage)[1]

[Washington,] October 18, 1955.

SUBJECT

Follow-up on Recommendations of "An Economic Program for the Americas" [2]

In response to a memorandum on the same subject, addressed to you by Frank C. Kimball, Executive Director, IDAB, and dated September 30, 1955,[3] there is given below the information requested therein on the extent to which ICA programs have rendered technical advice to and aided in the organization of development institutions in Latin America.

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[1] Source: Washington National Records Center, ICA Director's File, FRC 61 A 32, Box 309, Latin America.

[2] Reference is to a report prepared by J. Peter Grace, Jr., under the direction of the International Development Advisory Board (IDAB), and presented to Harold Stassen in September 1954.

[3] Not printed. (Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America)

For various reasons not all Latin American countries can be included. In Paraguay, for example, where there are in existence a National Council for Economic Coordination and an Economic Planning Commission, U.S. technicians have not been called upon to give advice because the Paraguayan Government used U.N. technicians for the purpose. The Development Commission of the Dominican Republic has not relied upon any foreign technical advice. In Peru, on the other hand, where about five years ago a North American group of private consultants, headed by Dr. Julius Klein, formulated a plan for the economic development of that country, no special development institutions were set up. The Cabinet appears to be the coordinating body and Government Ministries implement the recommendations of the Klein Mission availing themselves freely of the advice available from the ICA technicians. This occurs, of course, wherever ICA has a Cooperative Servicio in a Government Ministry or cooperates in other ways on the developmental projects undertaken by a Ministry.

Bolivia—An Economic Planning and Coordination Commission was established in October 1953 with the advice and assistance of the USOM which has continued to participate in the deliberations of this body. There is being set up an overall minerals mission to assist the Bolivian Development Corporation and other agencies of the government to secure better management of their mineral activities which are of paramount importance in the national economy.

Brazil—There are no specific projects to provide technical advice to development institutions. Functional segments of the USOM, however, have been and are working on various projects to which certain Brazilian institutions, which might be defined as development institutions are parties. Through the Getulio Vargas Foundation, which is charged with the task of "national development" USOM technicians are serving in the fields of business administration and of public administration at state and local levels. The Amazon Valley Development Authority is receiving advice in the fields of public administration and health and sanitation, and the San Francisco Valley Authority in health and sanitation. In the State of Minas Gerais, the nine northeastern states, and the State of Rio Grande do Sul, U.S. technicians are advising the rural development associations which combine activities in rural credit, soil conservation, agricultural extension and community development.

Chile—Provision is being made for a university-to-university contract between Chicago University and Catholic University in Chile in setting up an overall pool of planning which will provide a nucleus of trained personnel to assist in the developmental planning of Chile. The Chilean Development Corporation, which prior to September 1954 had the cooperation of a U.S. technician in the field

of economic research methods, has not requested technical assistance since that date.

Colombia—There are two national planning bodies, the National Economic Council and the National Planning Committee. The Council is concerned with short term economic and monetary problems, while the Committee engages in long-range planning for economic development. The USOM follows closely developments in either group which might affect the Technical Cooperation Program. It is possible that as the work of the National Planning Committee develops technical advice from the USOM will be requested.

Costa Rica—Overtures were made to the USOM in February 1955 with respect to assistance in the establishment of a National Economic Development Planning Coordination Board. However, the Government of Costa Rica abandoned this approach and proposed creation of an economic planning unit within the University of Costa Rica. Assistance in this direction is being considered in conjunction with the University of Florida proposals for reorganization and strengthening of the University of Costa Rica.

Cuba—U.S. technical advice was made available to the Agricultural and Industrial Development Bank to determine the capacity and to recommend methods to increase production and diversification of the food processing industry.

Ecuador—Two consultants were provided to a National Planning Board which has been established by the Ecuadoran Government. They are part of a foreign group of five serving as a working staff to the Board.

El Salvador—Planning for economic development is carried out within the Ministry of Economy. The USOM provides an economic advisor who has assisted in the establishment of an Institute for Economic Studies devoted to general economic development planning.

Guatemala—The National Economic Planning Council was set up early in 1955. The USOM has provided technical advice to this organization, but not on a regular or organized basis, as well as specific information relating to our program plans.

Haiti—U.S. technicians are advising the Artibonite Valley Authority on agricultural development.

Honduras—In October 1954 there was established an "Organizing Committee for the Economic Development Plan" which was to draft a law to set up a National Economic Council and make suggestions concerning the immediate rehabilitation of the North. This Committee has, however, gone ahead with drawing up a five-year plan for economic development requesting from time to time USOM technician assistance in the preparation of its studies and recommendations.

Nicaragua—An Institute of National Development was established in January 1954. U.S. technicians have advised the Institute from time to time on technical problems. Earlier in the present calendar year, two economists were assigned through the Technical Cooperation Program to assist the Institute in its work of planning and effecting national economic development programs.

Panama—Since September 1954 and preceding that date the USOM has supplied to the Institute for Economic Development the services of an agricultural credit expert, a farm machinery technician, and a hydraulic engineer. A joint fund contribution of $25,000 to be matched by Panama is to provide for specific studies and services in the fields of transportation, power and agricultural development. At the instance of the International Bank for Reconstruction and Development the dormant National Economic Council was revived early in 1955, but the USOM has as yet no direct connection with it.

Uruguay—The USOM Public Administration Advisor recommended to the Government in his comprehensive report "Public Administration in Uruguay" the creation of an Office of Economic Planning as a dependency of the Council of Government describing in some detail the functions of such an office. He also discussed the proposal with the Chairman of the Council of Government.

Surinam—U.S. technicians have been advising the new Development Planning Bureau in the fields of agriculture, housing, health and vocational education.

British Guiana—The Office of the Development Secretary, which is the planning and economic policy agency for the economic development program has been assisted primarily in the fields of agriculture, housing and general community development.

72. Memorandum From Philip P. Williams of the Office of Regional American Affairs to the Director of the Office (Cale)[1]

[Washington, undated.]

SUBJECT

Technical Cooperation in Latin America, is it Accomplishing its Purpose?

Introduction:

With reference to the forthcoming discussion by the Board of Directors of IIAA on the above subject, I have discussed the problem in general terms with a number of ARA desk officers. Based on these talks, in which I asked them if they had any suggestions for changes or improvements, and based on my own knowledge of the technical cooperation program in the field, I have prepared this rather lengthy memorandum, including certain guidelines, points for discussion, criticisms and suggestions which you may find useful.

Summary:

There is widespread support for the Technical Cooperation Program. It should be, and in Latin America is, a basically low cost long range program. Its direction is good and the amount spent is believed to be adequate. There is a natural tendency for the size of the program as a whole to increase, but this can be controlled by careful planning and systematic review. The guidelines developed over the years seem adequate to assure practical programs. Emphasis should be placed on the voluntary nature of our assistance to obviate any possible charges of economic imperialism by our enemies. When properly executed, technical cooperation is and can be an important step in reaching certain foreign policy objectives. Closer and continuing coordination and mutual cooperation between USOMs and Embassies is essential. A greater use of the contract method might be more effective in some fields. Other suggestions and criticisms lie mostly in the field of operations, but have their roots in policy considerations.

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[1] Source: Department of State, Central Files, 820.00–TA/10–1855. Limited Official Use. A covering memorandum of October 18 from Williams to Bernbaum is not printed. It suggests that in view of Cale's effort to ascertain the views of ARA desk officers on the general subject of the technical cooperation program, OSA desk officers might wish to comment on the paper.

General:

The Mutual Security Act of 1954 states that Congress finds U.S. efforts to promote peace and security require additional measures based upon the principles of continuous and effective self-help and mutual aid. U.S. policy is "to aid the efforts of peoples of economically underdeveloped areas to develop their resources and improve their working and living conditions by encouraging the exchange of technical knowledge and skills and the flow of investment capital to countries which provide conditions under which such technical assistance and capital can effectively and constructively contribute raising standards of living, creating new sources of wealth, increasing productivity and expanding purchasing power".

The President, in his foreign economic policy message to the 84th Congress put it this way: "The United States has a vast store of practical and scientific know-how that is needed in the underdeveloped areas of the world. The United States has a responsibility to make it available. Its flow for peaceful purposes must remain unfettered."

No one questions the wisdom of having a technical cooperation program, especially in Latin America, where our efforts to promote close friendly relations have been all but continuous. Technical cooperation is believed to be generally effective in Latin America, although there is criticism of some phases of certain country programs. There is a widespread feeling that too broad an approach has been taken at times and that a better thought out country program, directed at a few problems at a time, would be more effective in helping the other country and in bringing us immediate credit.

While our humanitarian motives are not always fully understood by the "Latinos", especially government leaders, they can readily understand the explanation that technical cooperation serves an enlightened self-interest of the United States while it helps them. As such it is acceptable, being mutually beneficial. In time, however, it is to be hoped that field work will spread understanding of our idealism and humanitarianism to the people. For the moment, however, one still finds the fear that technical cooperation may be economic imperialism in disguise or that the programs may in some way be used contrary to the interests of the recipient country. This is ever present in the minds of some. This fear, when coupled with ultra-nationalism and Latin sensibilities, makes it important to proceed slowly and carefully. Our real enemies are only too ready to use this latent fear of the "gringo" and the above mentioned traits to discredit and distort our efforts.

Guidelines:

Certain generally accepted guidelines have been laid down and others can be developed to assure a maximum return on our efforts in technical cooperation I would list these as follows:

1. Proceed slowly and carefully.
2. There must be a request from the foreign government first, before assistance is given.
3. There must be a willingness on the part of the foreign government to pay its fair share of the project to be initiated.
4. There must be evidence that effective use of the technical assistance given will and can be made.
5. A project or training program should be of definite duration, with plans drawn up at the beginning for completion or transfer to host country responsibility after a given number of years or months.
6. Close coordination and mutual cooperation between Embassies and USOMs is essential. (There are often political implications of which the USOM may not be aware.)
7. The relation of a project or program to the overall U.S. policy objectives in a given country require the Embassy's knowing and approving each project and program, but Embassy responsibility does not end there. Day to day USOM operations must be considered as they reflect on U.S. relations with the host government and people.
8. Embassies should, therefore, pay careful attention to USOM operations. (When an Ambassador and his staff have taken a real interest in and understood the USOM program and its importance to U.S. foreign policy objectives there is seldom any friction.)
9. USOMs should maintain close liaison with the Embassy on all levels. (Where there is mutual understanding of each other's work there is seldom friction, but where USOM personnel feel or are made to feel left out or fail to understand the functions, responsibilities and duties of Embassy officers or the calls upon their time, one often finds personality clashes. These result in friction, loss in efficiency and damage to United States prestige.)
10. Another reason for close Embassy–USOM liaison is the danger that one may be played off against the other by designing and ambitious foreign politicians unless a complete interchange of information is available.
11. Selection of personnel means more than finding the right technician. Not only must the latter be properly briefed and oriented before departing, but the job requires a natural friendliness, a need for an open mind, a broad outlook, initiative, resourcefulness and a desire to study the other nation's language, habits and mores. Above all, the technician should lack such traits as arrogance, or being domineering.
12. . . .
13. Embassies and USOMs should pay close attention to the multilateral programs of the UN and OAS, assisting wherever possible and at the same time being careful not to duplicate services or be brought into a position of competition with the other agencies.
14. In the use of university contracts, the terms should spell out in detail just what is expected and not leave the matter indetermi-

nate and subject to later criticism as to the amount spent and the size of the mission contracted.

Criticisms:

1. With reference to the size of the program as a whole, technical cooperation was never meant as a "big money" program. In Latin America it has not been so conducted and development assistance in Latin America has been limited to emergency situations. (Much of the criticism one hears directed against technical cooperation is often really directed against the grant aid programs of economic development.) Technical cooperation is a long range program. It has grown understandably as requests for aid have come in. The principal criticism heard is that once a program or project is started it goes on indefinitely. This is not completely valid, but some programs and projects have been in existence long enough to make this criticism worth considering. Each USOM should be required to reevaluate its programs and projects and discuss them frankly with the host government to see which can be terminated or transferred to local government responsibility. In this way other important projects could be undertaken without raising the total amount of funds being contributed by the United States.

2. USOM technicians are sometimes accused of unwillingness to make it clear to the host country that the USOM trained local technicians are capable of running a program or project by themselves and that the host government should take steps to assume this responsibility. This may require complicated legal or legislative moves by the local government, and such factors will have to be taken into consideration in drawing up termination plans, but they should not be used as the excuse for continuing a project indefinitely.

3. Technicians in the field of experimentation, especially agriculture, are sometimes said to become so engrossed in working on a problem themselves that they fail to train subordinates to take over, or they find so many new fields of investigation, that the need for foreign assistance tends to grow. This criticism requires very careful analysis and may often be unjustified. On the other hand, it is a problem which must be watched in terms of the size and length of a given program.

4. There is criticism that the shotgun rather than the rifle or balanced program approach has been used. There seems to be some justification for feeling that a more careful analysis should have been made in some cases before approving what now appears to have been rather haphazard country requests. In terms of a balanced country program, it may be better to limit the size and improve the quality and direction of technical cooperation. One must recognize, however, that it is not politically wise to attempt to tell a country what it needs unless there is real desire to request and accept such advice. It takes time to prove our sincerity. It may now be time, in some Latin American countries, to discuss the idea of a balanced program provided our help is fully appreciated and suspicions have been eliminated. Each USOM and Embassy would have to consider such an approach very carefully, not only in political and economic terms but from the financial standpoint as well. Can the country and

the United States afford to undertake a fully balanced program? This might lead to an undesirable expansion unless carefully thought out as a long range step by step plan.

5. Although one sometimes hears criticism of the Servicio approach, it is my belief that it has proved one of the most effective ways to assure the other country contributing its share to the cost. Projects of this type that I have seen in operation lend themselves to training of local personnel and eventual assumption of full responsibility by the foreign government. This is, after all, the basic aim of technical cooperation as I see it.

Other Suggestions:

Experience has shown that the basic fields of agriculture, health and sanitation, transportation and education are generally acceptable and noncontroversial. Politically, help in these fields arouses little suspicion and evokes a wide-based gratitude for a job well done. It is believed that our greatest returns lie in these fields. On the other hand, the various countries of Latin America are in differing stages of development and have differing technical needs. As the countries advance up the scale there is more and more recognition of a need for help in such fields as housing, industry, labor, public administration, banking and finance, etc. Because these fields often involve the technician in matters of legislation such requests from foreign governments must be carefully sifted for political implications and the personnel more carefully matched and directed by both USOM and Embassy. It has been suggested that requests for assistance in such matters might be considered in the first instant by limiting the requests to solving that part of the problem which could be directly subordinated in an existing basic program. As confidence is developed the assistance could be broadened. This has been tried rather successfully, I understand, in some Servicio programs where an agricultural Servicio has included in its program projects in home economics, farm credit and statistics and it seems conceivable that it might branch into the field of low cost housing or even assist in the establishment of a small industry related to agriculture, if the natural resources were readily and economically available. A health and sanitation Servicio would also seem to provide opportunities for this slow approach, sponsoring perhaps pure food and drug legislation or something related.

Another suggestion sometimes heard is that a large portion of the assistance granted in the above mentioned fields might be given more safely and effectively through contracts with a recognized private firm. This is especially true with regard to economic, financial or taxation surveys or investigation of government services and departments. If the desire for assistance is sincere and the suggestions for change likely to be considered, even though obviously

controversial in nature, it would appear to be in the U.S. interest to remove itself from responsibility for any views and suggestions to be made.

Conclusion:

The consensus is that the direction taken by technical cooperation in Latin America is good, and in general no overall change in this or the size of the program is needed. Each country program, however, should be carefully reevaluated in the terms of the guidelines, criticisms and suggestions set forth above to assure the greatest possible return to the United States.

[Attachment][2]

EXCERPT FROM MINUTES OF SPECIAL MEETING OF BOARD OF DIRECTORS OF THE INSTITUTE OF INTER-AMERICAN AFFAIRS, OCTOBER 7, 1955

Mr. Stambaugh stated that one thing that had impressed him in examining the Program Plan was that the program involves doing a little bit of something in every country. He felt that this might be too much of a "shot-gun" approach and suggested the possibility that it might be better to seek greater concentration in the program in order to obtain better use of our limited resources, and to assure that the program is kept up-to-date with the changing economic and political situation in Latin America. He said that he raised this point simply as a consideration to be kept in mind in connection with future program planning.

Dr. Russell stated that he felt there was a need for some discussion of the Servicio method of carrying on program activities, although he felt that his views on this and other policy questions were mainly related to planning for FY 1958 and following years. He said that this method might produce too much fragmentation of activities, and referred to Brazil and Mexico as examples. Mr. Atwood agreed that this was a matter which deserved discussion. At the same time, he said, it must be recognized that in Mexico, for example, it is necessary to carry on activities with federal, regional, state and municipal organizations, and that he feels there are definite advantages to being able to work at those different levels.

Dr. Russell stated that one question in his mind was what the function of the Board should be with respect to review of the program plan. Mr. Atwood stated that it was his view that the

[2] Confidential.

Board should give a thorough review to program plans for Latin America. Mr. Stambaugh stated that, while he felt the FY 1956 plan should be approved, the Board should make a closer study of future program plans if that is what the Board considered that its function should be in this regard.

Mr. Stambaugh further stated that he felt one area where technical cooperation should be intensified is in the field of assisting other countries to develop economic statistical information and services. Mr. Atwood said that the importance of this field has been recognized in Latin America, and that we actually are doing a considerable amount of work of that character. Dr. Russell pointed out that the United Nations is also active in this field.

Mr. Cale stated that he was prepared to approve the resolution proposed in Mr. Atwood's memorandum. He stated that there were a few areas where further discussions were needed between State and ICA to reach firm agreement before the FY 1956 Plan is implemented, but he felt these could certainly be solved satisfactorily after approval of the proposed resolution. The areas for further discussion which he mentioned were (1) the program for the Dependent Overseas Territories in the Caribbean; (2) the question of continuation of the Venezuelan program, with specific reference to the question of continuation of U.S. cash grants to the Health Servicio; (3) the question of continuation of the Mexican program, which is involved in the outcome of pending discussions between the U.S. Ambassador and the Mexican Government; and (4) a few other minor items. In response to a question from Dr. FitzGerald regarding the nature of these minor items, Mr. Cale cited as one example the State Department objection to recruitment of an industrial arts specialist for Haiti. Dr. FitzGerald distributed to the Board copies of his memorandum approving, on behalf of Mr. Hollister, the FY 1956 Technical Cooperation Program Plan for Latin America and setting forth specific limitations covering the first three items mentioned by Mr. Cale.

Dr. FitzGerald stated that the FY 1957 Program Plan is now in the process of development and he suggested that, before that plan is presented to the Bureau of the Budget, the Board should review major policy questions such as those raised earlier in the meeting by Mr. Stambaugh and Dr. Russell. He stated that this should take place before too late in the FY 1957 programming cycle. The Board instructed the Secretary to plan to arrange an early meeting of the Board, prior to November 1, for this purpose.

Mr. Cale stated that the Latin American program should, of course, be scrutinized at all times, but that he doubted that the Board in one meeting could give sufficient review to reach firm conclusions as to whether the program best serves United States

interests and what improvements are required. He emphasized that he was not suggesting standing pat on the present program, but that his question is how specifically to determine ways to get better use of available funds. He said that this would almost certainly require participation of the USOM Directors.

Mr. Atwood stated that at this stage he wasn't certain whether he would recommend any major program changes in the tentative FY 1957 Program Plan for Latin America. But he said that, in any event, he would like to have the Board approval of that plan before its initial submission on November 1. He stated that we do not have specific economic targets in Latin America, but that we are trying to help the efforts of the Latin American countries to achieve a rate and direction of development which is consistent with United States interests. He stated that it was his tentative impression at this point that our Latin American program does not seem to be shifting as much as the course of Latin American economic development is shifting. He further stated his tentative impression that we have not used our assets to the fullest to meet the problem of inflation or to counteract the trend toward nationalism.

Dr. Russell stated that he felt distinction should be maintained between the function of the Board and the function of an operating agency. The Board, he felt, should deal with basic policy questions, which is what it is best qualified to handle.

Mr. Cale pointed out that in another year or so another Latin American economic conference, like the one last year at Rio de Janeiro, is scheduled to be held in Buenos Aires, and that the U.S. is now beginning to scrutinize its policy toward Latin America in preparation for that conference. He stated that technical cooperation is an important part of U.S. economic policy in Latin America and should be reviewed as part of the preparations for the Buenos Aires conference.

Dr. Russell inquired as to why a program totalling $32.6 million was proposed when only the $27.5 million is available for technical cooperation. Mr. Atwood explained that this $32.6 million program is the result of careful program planning and review, and that he considers it a sound and well-thought out program plan. He explained that, with the $27.5 million available, projects from the total $32.6 million plan will be implemented on the basis of relative priority. Mr. Cale pointed out the possibility that later in the year additional funds could be made available for purposes of this program, and Dr. FitzGerald agreed and added that similarly it was possible that funds now allocated for this program might be recovered later on in the year.

73. Memorandum From the Director of the Office of Regional American Affairs (Cale) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, November 8, 1955.

SUBJECT

Preliminary Meeting with Bureau of the Budget on ICA's Program for Technical Cooperation and Development Assistance in Latin America for Fiscal Year 1957

The following notes have been prepared to assist you in your appearance before the Bureau of the Budget with reference to ICA's presentation of its fiscal year 1957 budget request for Mutual Security funds.

For Latin America ICA–O/LA is requesting:

Bilateral Technical Cooperation

$32,035,000

Development Assistance

$35,000,000

Special Projects

$35,000,000

Total: $102,035,000

The portion of the world-wide military funds which will be requested for Latin America has not yet been determined.

1. *Bilateral Technical Cooperation.* Our objective under the Bilateral Technical Cooperation Program remains that of cooperating with Latin American countries, whenever requested by them and whenever they are willing to pay their fair share of the costs, in demonstrating how, with the aid of modern technology, they can improve the utilization of the resources available to them to further their economic development and financial stability. It is impossible for the United States to assume responsibility for the economic and social development of all the under-developed areas of the world, but we are in a position to carry out, on a cooperative basis, pilot projects in certain technical fields which can be expanded through the efforts and at the expense of host countries and which can make substantial contributions to their development. It is our purpose to make a

[1] Source: Department of State, ARA/REA Files: Lot 63 D 87, FY 1957. Secret. Drafted by Williams.

contribution to the establishment in each of the Latin American countries of a stronger, self-reliant and durable national economy. We believe that it is in our national interest to carry out such programs of technical cooperation.

The illustrative amount of $32,035,000 has been developed by ICA–O/LA in cooperation with State–ARA desk officers. It represents a preliminary agreed position at Office Director level. It is a reduction from $37,284,600, the total requested in joint messages from the USOMs and Embassies in the field. Basically, it represents a continuation of present programs with a slight increase from the $30 million presentation made to Congress last year. The increases seem sound, normal and justifiable. They represent adjustments in individual country programs.

The following table gives the amount requested for each country together with the amount requested for FY 1956 and the present program level in the country:

Country	*FY 1956 Congressional Presentation*	*FY 1956 Level of Implementation*	*FY 1957 Proposed Presentation*
	(In thousands of dollars)		
Bolivia	2,507.9	2,408.6	3,194.7
Brazil	3,485.5	3,399.5	4,689.5
Chile	2,354.9	1,997.6	2,175.0
Colombia	1,550.7	1,318.1	1,410.6
Costa Rica	1,052.1	949.1	1,026.0
Cuba	621.7	528.4	671.8
Dominican Republic	433.7	508.2	530.1
Ecuador	1,605.4	1,507.9	1,970.2
El Salvador	1,006.8	912.3	1,024.8
Guatemala	1,830.0	1,555.5	1,628.2
Haiti	1,503.7	1,278.5	1,225.0
Honduras	1,053.4	1,163.6	1,290.4
Mexico	1,762.0	1,508.0	1,504.7
Nicaragua	910.1	873.3	878.9
Panama	1,268.8	1,024.5	1,164.8
Paraguay	1,453.2	1,297.1	1,494.5
Peru	2,704.7	2,369.0	2,896.3
Uruguay	425.9	392.6	523.9
Venezuela	175.1	123.8	175.0
DOTs	1,095.0	979.3	1,395.3
Regional	1,199.4	1,024.5	1,166.0
Unallotted Reserve		380.6	
Total	30,000.0	27,500.0	32,035.7

The increase should enable us to meet the political and economic objectives of U.S. policy in Latin America, insofar as technical cooperation is concerned.

The Department's policy considerations have been taken into account by O/LA in the development of the program and there are only two countries on which questions arise:

Mexico. For purposes of budgetary planning only, MID had no objection to the use of a total of $1,504,700 for the fiscal year 1957 program in Mexico. However, an outline of the entire Mexican program has been submitted to the President of Mexico for his review and comment. The future ICA program in Mexico will have to be based on the answer received from the President. Consequently, the budget for FY 1957 may have to be adjusted accordingly. Any change is likely to be downward.

Venezuela. For purposes of budgetary planning, OSA and O/LA agreed on a total of $175,000 for a continuation of the program in Venezuela. It is understood that there is some desire in ICA to eliminate the whole Venezuelan program. It is OSA's strong belief, based on consultation with our Ambassador in Caracas, that this small program should be continued and we should support this position.

It is believed that you can fully support the level of aid requested for the Bilateral Program of Technical Cooperation for fiscal year 1957.

2. *Development Assistance.* $35 million is being requested for FY 1957.

(a) Of the $35 million requested, $30 million would be used for the program of Development Assistance to Bolivia which began in November 1953 and which is in addition to the regular Technical Cooperation Program in that country. OSA, for budgetary planning purposes, agreed with ICA's requesting $30 million, but feels that a thoroughly detailed justification from the field is needed. This amount has been presented on the assumption that an increase in FY 1957 will make possible a reduction in the programs for 1958 and subsequent years. The Embassy and USOM in La Paz have been instructed to make a thorough study and provide complete political and economic justification for whatever level they recommend, considering the need to hold U.S. expenditures to an absolute minimum consistent with the accomplishment of U.S. policy objectives in Bolivia. This study, when received, may require an adjustment of the FY 1957 budget estimate.

In general, as you know, the purpose of Development Assistance to Bolivia is to enable that country to obtain the supplies needed to assure that minimum food requirements will be met, and to begin to diversify its economy so that its dependence on minerals exports, principally tin, may be reduced. The ultimate objective is the development in Bolivia of a stable self-supporting economy. The country's presently available resources are still not sufficient to

achieve this, but the measures which the Bolivian Government has taken and is expected to take, with our help, are overcoming these conditions and a stable situation should be achieved within a few years. Bolivia, however, continues to be dependent on imported foods which it cannot obtain with its foreign exchange receipts until the program of Development Assistance to that country is more advanced than at present. The U.S. should be prepared to continue to extend economic aid until the program can continue without external assistance. We have invested considerable sums in Bolivia, much progress has been made, but the full fruits of our efforts are yet to be realized.

(b) The remaining $5 million of the $35 million requested for Development Assistance would be used for the program of economic aid extended to Guatemala, which began in the latter part of 1954. This is in addition to the program of Technical Cooperation which this government is carrying out in Guatemala.

MID agreed to ICA's requesting $5 million, but it should be noted that the Embassy in Guatemala believes this will be insufficient and feels that $10 million may be required. Without full justification for the additional $5 million, MID agreed to the ICA figure, provided an additional $5 million is reserved to meet possible contingencies.

As you remember, the pro-communist Arbenz regime, which Castillo Armas overthrew in July 1954, left behind it a stagnant economy, growing unemployment and a barren treasure. Falling prices for coffee, Guatemala's principal export, intensified the new Administration's economic difficulties. Guatemala's government then sought help from the United States. This was provided by an emergency grant in the latter part of 1954 and a Development Assistance Program in fiscal year 1956 of $15 million. It is hoped that the amount now being requested for FY 1957 will be all that is needed to enable the Castillo Armas Government to assume, on its own, the full cost of the emergency projects begun with U.S. aid. By the end of FY 1957, it is expected that normality will have been restored and the emergency period passed.

3. *Special Projects.* The total amount of $35 million requested for these Special Projects has been drawn up within ICA and not cleared with ARA at any level. It has, however, been discussed in general terms with AR, but no agreement reached.

The total sum is understood to be broken down into two parts:

(a) *Latin America Security Fund,* amount requested $30 million. This sum includes $5 million for a program to combat communist subversion, a reserve of $5 million for Guatemala, in accordance with MID's understanding with O/LA mentioned above, and $2.5 million as a contingency should Argentina request a program of technical assistance now that the Peron regime has fallen. The balance, $17.5 million, is understood to be included by ICA for programming purposes in the belief that PL 480 assistance to a number of Latin American countries will, in effect, result in Development Assistance programs in those countries through the accumulation of counterpart funds. ICA feels that this will require additional aid from the U.S. in

the form of planning, technicians, and dollar funds for development purposes. We have as yet not seen the justification for this, but believe it would probably not be in accordance with our present policy to request the $17.5 million unless a solid justification is presented by ICA at the Hearings.

The $5 million for combatting communism is based on internal security studies, made pursuant to an NSC action on a world-wide basis, which are being reviewed by OCB. Of some 44 countries reviewed, 22 were selected for analysis. Of these, 6 were in Latin America, but only 4 were studied because there seemed to be no danger of any immediate threat in the other 2. These reviews, which have received wide general support within the Government, are expected to result in FY 1957 in an action program, of which part will be in Latin America and will aid some of the countries to bolster their internal security forces. The Department is understood to go along with the concept. The cost factor apparently used, $250,000 to $500,000 per country, does not seem excessive. ARA, however, cannot at this time estimate the number of countries in its area in which such programs might be established, if NSC approves of the program. ICA is understood to be working closely with the Bureau of the Budget on this aspect of their budget and it is felt that you can support this part of the request, provided NSC approves the program as a whole. You can also support the amount of $7.5 million to meet the contingency in Guatemala and Argentina.

(b) *President's Atoms for Peace Program,* amount requested $5 million. This sum is included for budgetary planning purposes to meet the anticipated requests from Latin America under the President's Atoms for Peace proposals. The Department, (S/AE), is conversant with the program and is understood to go along with the general concept. We in ARA, however, have no real basis for estimating the cost of component parts of this program as developed by ICA. ICA is understood to be including funds to cover one-half the cost of 8 research reactors ($2.5 million), based on the fact that 7 Latin American countries have expressed an interest in the program and 3 others (names undisclosed) are expected to do so. This would make a total of 10 countries. ICA reportedly expects that 2 reactors will be provided during fiscal year 1956, leaving a balance of 8. It is a moot question whether the Latin American countries will be in a position to participate in the purchase of such a large number of reactors during FY 1957. In addition, the total is said to include $1.5 million for a regional development center. The amounts (total $1 million) for training and basic surveys are understandable and do not seem excessive. Unless there is a conflict of responsibility with the Atomic Energy Commission over who conducts the program (S/AE is looking into this), ARA can no doubt go along with this amount.

74. Letter From the Acting Secretary of State to the Secretary of the Treasury (Humphrey)[1]

[Washington,] November 10, 1955.

DEAR GEORGE: Confirming several of our recent conversations, I would like to express more formally my deep interest in the Export-Import Bank's operations in Latin America. I am sure that you share my concern about the current level of the Bank's operations.

At the Rio de Janeiro Conference we agreed that we would meet with the Latin Americans again at another conference in Buenos Aires in 1956. If we assume that this conference will be held after the elections we have only about twelve months in which to prepare for it. The most important preparation for the conference is to build up a record of fulfillment of the policies announced at Rio.

As the Buenos Aires Conference draws nearer, I cannot help but fear that we will be in a difficult, if not an untenable, position if the opportunity for sound Export-Import Bank lending has not been fully exploited by ourselves. The time is indeed short when we consider all of the problems which naturally attend the making of loans which are expected to be repaid.

You may also have been thinking of ways and means by which we can do a better job on this segment of our policy in Latin America. I am sure that all of us want to think along the lines of what we can do to give real meaning to our position at Rio. I am therefore proposing to Joe Dodge that a committee be set up under the Council on Foreign Economic Policy to move ahead soon on preparations for the Buenos Aires conference.[2]

Again let me say that I know you are attacking the problem with all the resources at your command and it will not surprise me if our worries will be overcome well before the Buenos Aires meeting.[3]

Sincerely yours,

Herbert Hoover, Jr.

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[1] Source: Department of State, Central Files, 820.10/11–1055. Confidential. Drafted by Holland and cleared with Prochnow, Kalijarvi, Radius, and Corbett.

[2] Document 135.

[3] A copy of this letter was transmitted to Waugh, who became President of the Export-Import Bank on October 4, under cover of a letter from Hoover dated November 10 which reads in part as follows: "Ever since you went over to your new position I have had in mind expressing to you my great interest in the Export-Import Bank's operations in Latin America. As I have discussed this matter on several occasions with George Humphrey, I know you will be interested in the enclosed copy of a letter I sent to him today."

75. Letter From the Secretary of the Treasury (Humphrey) to the Acting Secretary of State[1]

Washington, November 14, 1955.

DEAR HERB: Thanks for yours of the 10th. As you know, I don't believe much in "dollar diplomacy" except where loans are made on a constructive and sound basis. Bad loans lose both the money and the friend.

The Export-Import Bank, under Sam Waugh, is improving its South American contacts and, as you know, Messrs. Waugh and Holland are starting this week on the first of several trips to Latin America. The Treasury has also added to its staff in Latin America.

I am in favor of the most careful advance consideration of our program for the Buenos Aires Conference, but I believe it would be well to delay conclusions as to the precise method of handling it at least until the return of Messrs. Waugh and Holland from their present trip.

I am sure you would agree with me that present political situations in the two largest countries of South America make it very difficult to plan ambitious programs at this time. If you have any specific suggestions in mind, I will be interested to hear them.

Best to you.

Sincerely,

George

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[1] Source: Department of State, Central Files, 820.10/11–1455.

76. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, December 13, 1955.

SUBJECT

Report on Visit to Six South American Capitals by Representatives of State, Defense, Treasury, Export-Import and ICA[2]

The objective of United States' inter-American policy is to persuade the Latin American Governments and peoples to adhere to our political and economic philosophies. Looking farther, we hope to produce a spectacle of peace and economic progress in this hemisphere as will make governments and peoples elsewhere in the world want to follow the American example.

We believe that a nation which accepts our philosophy as a condition to receiving gifts is a weak and undependable convert. We, therefore, try to persuade the American Republics that they should take our road because it is the best way to achieve *their* aspirations.

We have, therefore, pursued a policy whose major features are:

1) Defense of Latin America's existing access to United States markets, coupled with a real effort to expand inter-American trade.

2) A generous and vigorously implemented policy of Export-Import Bank credit for *sound* economic development loans.

3) Intensified United States participation in those technical assistance programs in which the other governments are genuinely interested.

4) Proof by every reasonable means (visits, speeches, conferences, etc.) that the United States accords real importance to the inter-American system.

5) Resourceful and aggressive support of the OAS to make it an organization actually capable of preserving the peace of America.

The foregoing policy has been successfully applied for the last two years, at times in the face of most difficult obstacles. In the course of our visit to the capitals of Colombia, Ecuador, Peru, Bolivia, Chile and Argentina, I believe that we saw unmistakable, durable fruits of that policy:

1) A long-term trend toward state controlled economies has been slowed and the private enterprise system enjoys respectability without precedent in my experience. Economists like Dr. Prebisch of

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[1] Source: Department of State, Central Files, 611.20/12–1355. Secret. A handwritten notation on the source text indicates that the Secretary saw this memorandum.

[2] This trip took place between November 17 and December 3. Assistant Secretary Holland and the representatives of the other agencies made the trip to confer with Embassy officers and to prepare for the Buenos Aires Economic Conference. Documentation on the trip is *ibid.*, 033.1120/10–2555.

the United Nations' Committee for Latin America; government officials like Villaveces,[3] Finance Minister of Colombia, who were in the past aggressive exponents of state socialism, talked to us in the terminology of private enterprise that one would expect from a United States official. Other government officials devoted to the socialistic philosophy like Nebot[4] of Ecuador and Prat[5] of Chile have left the scene.

Our meetings with private businessmen, both local and United States, were attended by numbers far exceeding those I held fourteen months ago in the same cities. Participants were vocal and intensely interested in opportunities to expand their businesses.

2) Governments formerly cautious or wavering in their condemnation of Communism are now far more outspoken and appear to be willing to undertake anti-Communist programs which we would have thought impossible fourteen months ago.

The President of Argentina assured us that his Government will ratify the Caracas Anti-Communist Resolution; he asked for our assistance in setting up an effective organization to combat Communism. The President of Chile vigorously described Communism as one of his country's most important problems. Government officials in Ecuador are realizing that Communists are inspiring some of their most difficult domestic problems.

The developments described above are not peculiar to the six countries that we visited. To a greater or lesser degree I believe they are apparent throughout the Latin American area. The trend is such that there is reason to hope that in the near future we can achieve the following objectives in Latin America:

1) A notable strengthening of the private enterprise philosophy as contrasted with that of state control.

2) A notable weakening of the Communist effort in the area, particularly in the key countries of Argentina, Chile and Bolivia.

3) An unprecedented relationship of friendship and cooperation with Argentina. As you know, Argentina's attitude towards the United States has traditionally been one of aloofness and suspicion. In so powerful a nation, this attitude has been a major obstacle to our achieving our foreign policy objectives in the area. I foresee no honeymoon, but the new Government badly needs our support and frankly offers to follow a course of close cooperation and friendliness. I believe that this opportunity is unique and, if not seized now, may not recur in the foreseeable future.

Our chances of achieving the foregoing objectives are imperilled by a number of factors over which we have only limited control, but also by several that we have the power to eliminate completely:

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[3] Carlos Villaveces.
[4] Jaime Nebot Velasco.
[5] Jorge Prat Echaurren.

1) *Our Export-Import Policy*

There being no grant aid or soft loan features, the heart of our economic policy in Latin America is our oft repeated assurance of generous Export-Import Bank credit. The Latin Americans have accepted this policy with good grace because figures which we have published indicate it is being aggressively applied. The figures we disclosed are those for fiscal year 1955 which show new credits authorized in Latin America of $284 millions versus $52 millions in the year preceding. However, the operations of the bank during the first six months of fiscal year 1956 are alarming—a total of $18 millions of credits. Regardless of how sound our justifications may be, this level of Export-Import Bank operation, if it becomes known in the area, will mean that the Latin American governments will accuse us of repudiating our announced policies and will renew their demands for grant aid, soft loans, price support programs and other devices prejudicial to United States' interests in the area.

2) *Technical Assistance and Grant Aid*

Our announced policy on aid is:

a—to strengthen our participation in programs of genuine technical assistance and

b—to extend grant aid to meet temporary emergencies.

Only two countries qualify for grant aid in the next fiscal year—Bolivia and Guatemala.

Because of the exacting standards we ourselves apply, our budget requests for technical and grant aid are small: $32 millions for technical assistance and $40 millions for grant aid (30 in Bolivia and 10 in Guatemala). This is the last year we expect to give grant aid to Guatemala. The objectives these programs are intended to achieve are, however, very important. Our technical assistance programs are effectively convincing large masses of people in Latin America and many of their public and private leaders that the United States wants to see them achieve their aspirations and is willing to help them do so. Our two grant aid programs are keeping the anti-Communist government in power in Guatemala and are preventing a Communist take-over in Bolivia. These objectives must be achieved. Some people feel that they can be achieved for less money than we have estimated. I hope that is true. However, our estimates of the needs of each country are rather hard, and I would urge rather strongly against our gambling on the assumption that they are inaccurate.

My *conclusions* are:

1) We are reaping the benefits of a sound economic policy in Latin America.

2) The demonstrated success of our policies abundantly justifies their continuance. This means a vigorous Export-Import Bank program and the establishment of aid levels that we know are adequate.

77. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, December 13, 1955.

SUBJECT

Mutual Security Funds for FY 1957 for Economic Assistance to Latin America

Our Latin American policy is clearly beginning to pay off. The trend toward State-controlled economy has been slowed down and the private enterprise system is being given a greater opportunity to function than it has for many years. Moreover, Governments formerly cautious in their condemnation of communism are now far more outspoken and several appear to be willing to undertake vigorous anti-communist programs. One of the most important developments in the hemisphere is that Argentina appears to be ready to abandon its long, traditional attitude of suspicion and coldness toward the United States in favor of a relationship of frank friendship and cooperation. If we do not exploit the present opportunity I fear that it will not recur.

Such progress as we have made in the Latin American field is attributable to a policy whose principal features are a generous Export-Import Bank policy, a policy of strengthening our participation in technical assistance programs and a policy of grant-aid to the pro-US and anti-communist Governments in Bolivia and Guatemala until, in our judgment, they can stand without that kind of assistance.

I understand that you and Mr. Hollister have agreed to request Bureau of the Budget approval of the Mutual Security economic program for FY 1957 as follows:

Technical Cooperation	$32 million
Development Assistance	
Bolivia	20 million
Guatemala	5 million
Security	2 million
Atoms for Peace	2.5 million
Technical Cooperation of OAS	1.5 million
Total Economic	63.0 million

I understand that the Bureau of the Budget has proposed to reduce the $32 million item for technical cooperation to $28 million, and has not commented on the balance of the proposal.

[1] Source: Department of State, ARA/REA Files: Lot 63 D 87, FY 1957. Secret.

It is my strong feeling that a Mutual Security Program of the dimensions set out above may imperil the gains that we have made in Latin America and weaken the anti-communist Government in Bolivia just when we hope that it is achieving the strength to stand alone.

Specifically, I make the following recommendations:

1. That the technical cooperation item be held at $32 million. We have laid great stress throughout the hemisphere on the commitment undertaken by the United States at the Rio Conference to strengthen its participation in technical cooperation programs. Our program for this year was $28.5 million (including a $1 million carryover). An increase to $32 would be rather niggardly implementation of our announced policy, and an appropriation of $28 million would simply demonstrate an abandonment of that policy.

2. I recommend that the grant-aid for Bolivia be returned to the $30 million figure. It is our best judgment that this amount of money will actually be required. Some people think that we can accomplish our objectives with less money. I would be entirely satisfied to put $10 million into a contingency fund *clearly earmarked for Bolivia,* and not touch it unless necessary. However, I feel that it is very necessary that we be assured access to $30 million for Bolivia by one means or another.

3. I recommend an additional contingency fund *earmarked for Latin America* of $10 million. This would cover any or all of the following contingencies which I feel strongly that we may have to face:

a. A technical assistance program for Argentina.

b. An increase in the amount of money that we may have to spend in Guatemala to keep the present anti-communist Government in power.

Crises might arise which would make us lay claims exceeding $10 million on any contingency fund that is established; however, I feel it essential that we be insured *first claim* on such a fund up to the figure of $20 million described above.

78. Memorandum From the Special Assistant for Mutual Security Affairs (Hill) to the Acting Secretary of State[1]

Washington, December 16, 1955.

SUBJECT

Mutual Security Funds for FY 1957 for Economic Assistance to Latin America

S/S has referred Mr. Holland's memorandum of December 13, 1955 to this office for comment.

Mr. Hollister's letter to the Budget Bureau of December 7, 1955,[2] which had the concurrence of this Department, requested new obligational authority for non-military programs of $1,906.8 million. It is our understanding that the Budget Bureau has accepted this figure (rounded down to $1,905 million). Attached to Mr. Hollister's letter was a tabulation of the country-by-country figures underlying his recommendation for the $1,906.8 million total for non-military programs. As Mr. Holland notes, the figure for bilateral technical cooperation for Latin America appearing in this tabulation is $32 million.

In his letter, Mr. Hollister noted that the country figures for non-military programs "should be considered at illustrative only." He went on to say, "In fact, it should be recognized that even the major division of the total Mutual Security request of $4.9 billion among (a) military assistance, (b) direct forces support and (c) other programs will need to be reviewed and may need to be readjusted prior to the actual presentation of the FY 1957 Mutual Security Program to Congress."

It is my understanding that there will be a careful review of all figures on a country-by-country basis before we proceed with the drafting of the presentation to the Congress.

The recommendation that the figure for development assistance in Bolivia be increased to $30 million was contained in Mr. Lyon's memorandum which, along with other memoranda from NEA and FE, were transmitted to you on December 2 for consideration in connection with your final session with Mr. Hollister on the country figures. I understand that E believes, on the basis of available information, that a program of assistance in FY 1957 substantially above the $20 million level would have the effect of increasing consumption levels beyond those existing before the collapse of tin prices and beyond those which can be sustained by Bolivia from its

[1] Source: Department of State, ARA/REA Files: Lot 63 D 87, FY 1957. Secret.
[2] Not found in Department of State files.

own resources over the long run. I assume staff level discussions are continuing among E, ARA, and ICA in an attempt to reconcile divergent views.

The presentation and justification for the President's $100 million global contingency fund has not yet been discussed in detail. However, the earmarking of specific amounts for specific countries or areas, within the funds requested for contingency uses would tend to vitiate one of the principal arguments for such a global contingency fund. The Secretary, yourself and Mr. Hollister have all expressed the opinion that a greater measure of flexibility in the use of funds appropriated for mutual security would be desirable. The specific earmarking of contingency funds could run contrary to the proposition that funds should be available to meet high priority requirements that arise during the course of the fiscal year.

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79. Memorandum of a Conversation, Department of State, Washington, December 28, 1955[1]

SUBJECT

Export-Import Bank Loans in Latin America

PARTICIPANTS

ARA—Mr. Holland
E—Mr. Kalijarvi
AR—Mr. Sanders
Export-Import Bank—Mr. Arey; Mr. Rowntree
Treasury—Mr. Overby

At the meeting this morning of the Sub-committee on the Buenos Aires Economic Conference Mr. Holland mentioned the reduced level of Export-Import Bank lending to Latin America thus far in fiscal year 1956, as compared with the rate of lending in fiscal year 1955. It was decided that this matter primarily concerns the Department of State and the Export-Import Bank, that it should be discussed between the two agencies, and that if a problem exists, it should be referred to the Sub-committee.

Immediately following the Sub-committee meeting the question of Export-Import Bank lending was discussed by Mr. Holland, Mr. Kalijarvi, Mr. Overby, Mr. Arey, and Mr. Rowntree.

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[1] Source: Department of State, Central Files, 820.10/12–2855. Confidential. Drafted by Sanders.

Mr. Holland outlined the objectives in Export-Import Bank lending: The level of lending should be at least the minimum amount necessary to keep the Latin Americans from complaining. We have led them to believe that "substantial results" will be realized, and if we do not live up to this, there will be intense complaints, and we will be confronted again with the problem of dealing with the extremists who have maintained so vigorously in the past that the United States is not providing enough investment funds for Latin America. It would not satisfy our political purposes simply to tell the Latin Americans that we have acted on all sound loan applications.

Reasons for delays in granting loans in certain countries were discussed. Mr. Arey said that a steel mill loan for Colombia is being deferred pending completion of an IBRD report. Following the completion of this report the Colombians presumably will tell the Export-Import Bank the amount they wish to borrow. In the case of a loan to Mexico for railway construction the loan is being held up for final determination of the amount; the Mexicans have thought that they may need $100 million instead of $23 million as originally contemplated. Loans for the Chilean nitrate industry are awaiting the enactment of certain legislation in Chile. Reference was also made to the steel mill loan to Argentina and its delay.

Mr. Holland stated his belief that it would be desirable to have the $25 million Santo–Jundai loan for Brazil approved by the NAC so that following Kubitschek's[2] visit to the United States his loan could be announced. Mr. Kalijarvi said that he will ascertain E's position on this loan. Mr. Holland indicated that he would give Mr. Kalijarvi ARA's views.

Mr. Arey pointed out that to achieve a level of lending sufficiently high to satisfy our political purposes it might be necessary for the Export-Import Bank to grant loans that otherwise would have been made by the IBRD. An example is a prospective $20 million loan for highway construction in Peru, which might not conflict with IBRD lending for roads in that country.

Mr. Rowntree stated that all Export-Import Bank Loans to Peru had been to American companies engaged in extractive industries. Mr. Holland pointed out that this provides an opportunity for communist propaganda. Mr. Arey expressed the possible desirability

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[2] Brazilian President-elect Juscelino Kubitschek de Oliveira visited the United States, January 5–6, 1956. For texts of a statement made at Washington National Airport on his arrival by Secretary Dulles, an address which the President-elect delivered before the U.S. Senate, and an excerpt from his address to the National Press Club in Washington on January 6, see Department of State *Bulletin*, January 16, 1956, pp. 86–88.

of doing something for the Government of Peru, particularly in view of the latter's efforts in making payments on defaulted loans.

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80. Letter From the President of the Export-Import Bank (Waugh) to the Under Secretary of State (Hoover)[1]

Washington, January 16, 1956.

DEAR HERB: Yesterday during our contest you asked me two questions: first, what were the Bank's profits last year, and later, the second question, how many branch offices or men do we have stationed in Latin America at this time.

Thinking the matter over at home last evening, I wondered if you were of the impression that possibly the Bank was making too much money and that we might spend some of the profits in greater activity in Latin America.

The audit report of the Comptroller General just came in this morning and it indicates that the net income of the Bank for the year ending June 30, 1955, was $59,000,000. The report also comments that although the Bank was not required to pay interest costs to the Treasury on its capital stock, a dividend of $22,500,000 was paid. This follows the established policy for the past several years.

The remaining income of $36,500,000 was transferred to the reserve for future contingencies. You, being a sound businessman, would not feel, I am sure, that this is an unusual amount to add to the reserves in view of outstanding loans and undisbursed authorizations amounting to $3,500,000,000 on December 31, 1955.

Then too, with reference to the Bank's activity for the year just closed, December 31st, I believe the following figures will be of interest to you. In 1954 the Bank authorized 34 credits for $346,000,000. In the corresponding 12 months of 1955 there were 113 credits for $372,000,000. Perhaps I should add that the 1954 figure includes the $100,000,000 Southern Peru Copper loan, which is just now coming into being. The 1955 figure includes the authorization of $60,000,000 for the Argentine steel mill, as yet unsigned.

During the past six months the Bank authorized in Latin America 22 general credits totalling $49,600,000, and in addition, 31 actual allocations under exporter credit lines for $2,800,000. In other words, in the past six months there were 53 individual credits authorized in

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[1] Source: Department of State, Central Files, 103–XMB/1–1656.

Latin America totalling in excess of $50,000,000. During the first six months of the past calendar year the Bank authorized 23 credits in 12 Latin American countries totalling $166,900,000. When adding these 23 credits to the 53 in the last six months, you get a total operation in Latin American of $217,000,000 authorized credits in the calendar year 1955. (See P.S.)

You may or may not realize, but I am sure the "E" and "ARA" areas both do, that we have pending loans in excess of $100,000,000 in Latin America that are being held up at least in part for reasons beyond our immediate control. For example, Brazil—there are two sizable credits pending, one railroad and one steel mill loan, where State has requested the holding action. In Argentina the $60,000,000 steel mill commitment is as yet unsigned, although the Bank is ready and willing to sign as soon as it is assured that the additional foreign credit for the completion of an integrated mill is forthcoming. In Chile we have two applications pending for the development of the nitrate operations, one from the Chilean corporation and a second from the United States corporation. These are held at the request of the applicants, pending a decision on legislation now pending before the senate of Chile. Then too, we are processing a modest-size loan for an addition to the steel mill, which has been one of that country's most successful operations largely financed by the Bank. In Colombia we are still waiting word from the mission of the International Bank before making a definite decision on pending financing, here again a steel mill. We also have under consideration at the request of the President of Peru[2] some road financing.

In addition to these larger credits, Herb, we have numerous requests for exporter credits to countries where neither we nor many of the exporters feel the time is ripe for favorable consideration. In other words, where countries are today delinquent for several months in the payment of their current exporter credits, we feel it would be most unwise to complicate further their financial problems by granting still further credit. You are familiar with the past history of Brazil in this regard, and the same situation prevails today on a more modest scale in Chile.

This brings us to my answer to your second question; namely, we in the Bank believe that it is far better to work through the embassies in the respective countries than it is to attempt to set up branch offices throughout the area. What is more important, I believe today that there is not a single application in the Bank that is not being given prompt and thoughtful consideration. The crux of the problem is the ability of the countries and the individual borrowers to generate sufficient dollars to liquidate their indebted-

[2] Manuel Odría.

ness. This of course is where the question of the volume and value of their exports to the United States play such an important and fundamental role.

The Export-Import Bank legislation and the accompanying Committee Report approved by the Congress in mid-summer of 1954 emphasized that the Export-Import Bank should "constitute an independent agency of the United States." Since the first of the year, Secretary Humphrey has called this to my attention in reminding me that he did not want the Bank to be under domination of the Treasury or any other department or agency of the government. Let me hasten to add my own thoughts in this connection.

There always has been the closest kind of working relationship between the Bank and the Departments of State and Treasury. It is my earnest hope that this will endure for all times to come.

The point I think that the Congress and Secretary Humphrey wanted to make is that the final responsibility for making the decisions must rest with the directors of the Bank, but I am hopeful, and here I repeat, that the Bank and the Executive Branch will always maintain the closest of working relationships, for after all, we do have the same broad objectives.

Forgive me, my friend, for the length of this letter, which does not call for any acknowledgment.

Very sincerely,

Sam

P.S.—These figures do not include any portion of the 130 individual exporter credit lines which total $173,085,000 except that portion totalling in excess of $6,000,000 under which transactions have actually been consummated.

81. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State and the Under Secretary of State (Hoover)[1]

Washington, January 17, 1956.

SUBJECT

Inadequacies of Export-Import Bank Operations in Latin America

In my judgment the volume of new credits authorized by the bank in Latin America is falling considerably below the minimum needed to insure achievement of our foreign policy objectives in the area. This problem causes me grave concern.

Prior to the Caracas Conference in March of 1954 our policy seems to have been that the Export-Import Bank should limit its activities to the financing of United States exports, leaving developmental loans to the International Bank. Whatever may have been its virtues, this policy contributed to creating a degree of resentment and discontent in Latin America which at the Caracas Conference we recognized as a real danger to our relations in the hemisphere.

In preparing for the Caracas Conference we tried to develop a policy on developmental financing that would reduce this resentment below the danger mark. It was decided to announce that the Export-Import Bank would re-enter the field of development financing. In his opening speech at the Caracas Conference the Secretary said:[2]

"We have also in the United States in the public financing field the Export-Import Bank, a national institution of my own government. One important function of this institution will continue to be that of affording export credits either through direct loans or guarantees.

"There has been speculation as to whether this Bank has withdrawn from the field of economic development. I am glad to be able to clarify this matter. The Export-Import Bank will consider on their merits applications for the financing of development projects which are not being made by the International Bank and which are in our common interest, are economically sound, are within the capacity of the prospective borrower to repay and within the prudent loaning capacity of the Bank."

This statement that the Bank would "consider on their merits applications for the financing of development projects, etc.," did not

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[1] Source: Department of State, Central Files, 103–XMB/1–1756. Top Secret.

[2] The full text of this speech, delivered at the Second Plenary Session, March 4, 1954, is in *Tenth Inter-American Conference, Caracas, Venezuela, March 1–28, 1954: Report of the Delegation of the United States of America with Related Documents* (Department of State Publication 5692, Washington, 1955), pp. 43–51.

achieve our objective of diminishing the open and rather bitter criticism that the United States was "abandoning Latin America." In order to gain time to study the problem further we agreed to meet the Latin Americans at an economic conference in Rio the following November.

Upon our return to Washington we worked out with all interested agencies of the Government an Export-Import Bank policy which we hoped would be adequate to achieve our objective. That policy was approved by the National Security Council and appears in its policy paper on Latin America[3] as follows:

"b. Through Export-Import Bank loans,—provided each such loan is (1) in the interests of both the United States and the borrowing country, (2) within the borrower's capacity to repay, and (3) within the Bank's lending capacity and charter powers,[4]—*be prepared to assure such financing of all sound economic development projects,* for which private capital or IBRD financing is not available. (Emphasis supplied.)

"c. Only if action under a. (which related to trade policies) and b. above over a period of time demonstrates that these courses of action are inadequate, and then only with Presidential approval in each case, finance through development assistance loans the initiation or acceleration of projects or activities which are in the basic U.S. interest and which, in the absence of such additional assistance, would not be undertaken or, if undertaken, would not be carried forward at the rate required by U.S. foreign policy objectives."

At the Rio Conference a strong Latin American sector, believing that it had the support of a considerable group in our own Government, tried to force the United States to adopt a program of general grant aid, soft loans, the creation of an inter-American bank and price support programs. We refused, offering instead a policy of trade, technical assistance, encouragement to private investment and a promise to intensify substantially the activity of the Export-Import Bank in the developmental field. Mr. Humphrey in his opening statement[5] said: (basing his statement on the NSC policy quoted above)

"One of the things which our governments must do to encourage free enterprise is to insure that those projects necessary for

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[3] Reference is to NSC 5432/1, "United States Objectives and Courses of Action With Respect to Latin America," approved by President Eisenhower on September 3, 1954; for text, see *Foreign Relations,* 1952–1954, vol. IV, p. 81.

[4] At this point in the margin appears the following handwritten notation initialed by Hoover: "Was not the charter later changed to discourage this type of financing?"

[5] The full text of this statement, made to the Plenary Session on November 23, 1954, is in *Report of the United States Delegation to the Meeting of Ministers of Finance and Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, November 22 to December 2, 1954, Quitandinha, Brazil* (Washington, 1954), Appendix 5.

economic development, but for which private capital is not reasonably available, are adequately supported by public investment. We view this as a necessary support to an economy which relies principally upon private enterprise as supplementing and encouraging, rather than as displacing free enterprise. I am sure that each government will shoulder as much of their burden as it reasonably can, *but we agree with you that substantial foreign lending will be necessary if we are to achieve our goals in this hemisphere.* We shall do our part generously and loyally in meeting that need.

"To that end we have reviewed the whole scope of our public lending policies and have arrived at certain changes which we consider significant.

"The first relates to the United States Export-Import Bank whose activities are to be intensified and expanded." [6]

. . . . . .

"If the international finance corporation is established, we shall then have three major financial institutions to help promote economic development. We shall have the Export-Import bank that has had a long history of useful work in Latin America *and whose activities are to be* intensified. . . " [7] (Emphasis supplied.)

In explaining to the Rio conferees that the United States would not participate in the proposed inter-American bank the United States spokesman, Mr. Andrew Overby, said:

"I am sure we all agree that our mutual goal should be to supplement Latin America's own resources with ample sources of credit for healthy economic development. Our own people believe in that sincerely. We also agree that the facilities for credit and investment which have been available to Latin America through the past few years must be strengthened if we are going to achieve this goal. Thus, there is complete agreement among us as to where we stand today and as to precisely where we want to go. The only difference of opinion is as to the best road to follow to reach our goal."

Referring to the U.S. economic program for Latin America Mr. Overby said:

"Since the Caracas Conference we in the United States have devoted many months of sincere effort within our Administration and our Congress developing a program which is feasible for us; which we believe will carry us to our mutual goal and which we believe will mark an important change in our relations in the field of international financing."

Finally he said:

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[6] The following omission indicated in the source text.

[7] Ellipsis in the source text.

"If the day should ever come when we feel that this program is not achieving the results which we believe that it can, we shall be glad to discuss other solutions."

Thus, at the Rio Conference we repeatedly assured Latin America that our new Export-Import program meant "substantial foreign lending", that the Bank's activities would be "intensified and expanded", that we were going to supply "ample sources of credit for healthy economic development." We urged Latin America to give us a fair opportunity to demonstrate the generosity and adequacy of our proposals. We agreed that after a two year interval we would hold another Economic Conference in Buenos Aires. We argued that if in the meantime our policies are proven inadequate we would take another look at the alternative proposals we had rejected in Rio. In the NSC Policy Paper at Mr. Stassen's insistence this is affirmatively recited (see paragraph C quoted from NSC document above).

Upon our return from the Rio Conference in April of 1954, I urged that immediate steps be taken to fulfill these promises. I urged a level of Export-Import Bank lending which at the proposed Buenos Aires Conference would be a defense against renewed campaigns for grant aid, soft loans, new lending institutions and price support programs. On March 29, 1955 the President held a conference in the White House to discuss Export-Import Bank policy in Latin America. At that meeting I submitted a memorandum[8] which stated in part:

"At the Rio Economic Conference it was decided that another conference of the same nature would be held in 1956 in Buenos Aires. There the Latin American advocates of the ECLA philosophy of U.S. financing will renew their efforts. If, during the intervening period, the United States has built up a record of activity on the part of the Export-Import Bank which supports our assertions at the Rio Conference, we will be in an exceedingly strong position. *If, on the other hand, we have failed in this regard, then, because of our own inactivity, we may be forced into financial programs which, while superficially attractive to the beneficiary countries, are inconsistent with a private enterprise philosophy and with the best interests of the United States itself. A record of intensified activity on the part of the Export-Import Bank cannot be built up during a few months immediately before the Buenos Aires Conference in 1956.* It will require constant and resourceful work throughout the entire intervening period."

In that memorandum I recommended eleven specific measures which it seemed to me that the Bank should take in order to insure an adequate level of operations. No one present criticized any of these measures, and the President commented that they seemed reasonable to him.

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[8] Not further identified, but see footnote 2, Document 61.

In fiscal year 1955 our performance was adequate, although I am afraid that the outcome was largely due to the authorization of two or three large loans. The total volume of new credits authorized increased from $52.2 million in the preceding year to $284 million. However, during the last three months of fiscal 1955 and the first six months of fiscal 1956 the level of credit authorizations has dropped alarmingly, and I am sorely afraid that in this crucially important year (the last before the Buenos Aires Conference) our performance will drop to less than one-half of the preceding fiscal year. This would surely mean that the Buenos Aires Conference will mark a real crisis for us. The proposals we have heretofore rejected successfully will be renewed even more vigorously, and I do not think that this time we will find an alternative policy acceptable to the Latin Americans.

New credits authorized during the last nine months are:

During last three months of FY 1955	$16,829,000
During first six months of FY 1956	$52,200,000
Total during past nine months	$69,029,000
Monthly average past nine months	$ 7,669,000
Monthly average times 12 for indicated year	$92,028,000

When I raised these figures with the Bank it pointed out that if a *calendar* year basis is used the picture is more favorable:

	1953	*1954*	*1955*
New credits authorized	$315.1	$155.0	$219.5

This answer ignores the sustained bad record for the past nine months, the unfortunate comparison between 1953 and the *two* subsequent years, and the fact that the Department has consistently publicized in Latin America figures on performance during *fiscal* years.

Alarmed at the trend of Export-Import Bank activity, I brought the problem to your attention on October 15 [*19*], 1955 saying:

"We have a showdown with the Latin Americans about twelve months off when we meet them at the forthcoming Buenos Aires economic conference. We said we were going to do something between the time of the Rio Conference and the time of that showdown. We are not doing it. We should either start doing it or we should call off the Buenos Aires conference and try to avoid the showdown. We cannot in a few months just before the conference build up a record that will get us through the test."

On November 10 the Under Secretary wrote Mr. Humphrey expressing his concern and saying:[9]

[9] Document 74.

"As the Buenos Aires Conference draws nearer, I cannot help but fear that we will be in a difficult, if not an untenable, position if the opportunity for sound Export-Import Bank lending has not been fully exploited by ourselves. The time is indeed short when we consider all of the problems which naturally attend the making of loans which are expected to be repaid."

The importance of intensifying substantially Export-Import Bank activities goes beyond the reckoning that we shall face at the Buenos Aires Conference. Our whole economic policy in the area is built around this commitment, yet we are clearly failing to keep it. Latin America is awakening to our failure and criticism of our policy is becoming more open. The whole problem has been rendered much more acute by the Soviet campaign in the area to renew diplomatic relations and expand trade.

Five and one-half months remain in the present fiscal year. If the Department of State is to be successful in its field of responsibility, total credits for this fiscal year should amount to something on the order of $250 million ($284 million last year). I sincerely believe this is a practically achievable objective. The Export-Import Bank has before it a volume of loan applications out of which we believe an aggregate of $200 million can be selected which will meet our announced policy standards and which can be authorized during the balance of the fiscal year. We have rather carefully scrutinized the entire list of applications and feel that the Department and the Embassies can be quite helpful to the Bank in achieving the record of performance we need for this year.

I have been unable to obtain agreement from the Bank on the need to achieve the objective I have defined. On the contrary the President of the Bank has advised me that fiscal 1956 will be a "slim year" for the Bank in Latin America.

I can easily understand how the Bank might feel that the Department's intense concern and continuing vigilance of its activities amounts to a meddling in the Bank's affairs. The role, however, is forced upon us. The level of Export-Import Bank activity is one of the most important factors in determining whether the Department is successful in maintaining good political and economic relations within this hemisphere.

Whether we like it or not, our stated policies in the hemisphere make the Bank an instrument of United States foreign policy in the area. In his speech at Rio Mr. Humphrey quoted from Senator Capehart's report as chairman of the Senate Banking and Currency Committee. There, referring to the legislation recently increasing the Bank's lending authority, Senator Capehart said:

"The Export-Import Bank has played an important role in our foreign economic policy and must continue to do so on an activated scale."

It is urgently important that we and the Bank agree on an approximate level of credit authorizations to be achieved in this fiscal year. It is urgent that the Bank take measures to insure achievement of that objective. The Bank's apparent satisfaction with its present rate of activity, coupled with the rapid approach of the end of the fiscal year, fill me with real and growing alarm. Unless we can reach agreement on the objectives for the Bank, the Department must consider the alternative and most unfortunate programs of soft loans which the NSC policy paper provides that we shall contemplate if our existing policies fail. In my judgment we are allowing them to fail.

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82. Memorandum of a Conversation, Department of State, Washington, January 18, 1956[1]

PARTICIPANTS

Secretary Dulles
Samuel C. Waugh
Henry F. Holland

SUBJECT

Activities of the Export-Import Bank

The Secretary referred to the growing industrialization and economic development in Russia. He said that the Soviets are trying to capitalize on this development by arguing to the under-developed areas of the world that they, too, can enjoy such development and that Soviet Russia is prepared to assist them. He referred to the increasing propaganda campaign being carried on by Russia in Latin America. He expressed concern as to whether the operations of the Export-Import Bank in the area will be of volume sufficient to serve as an effective defense against the Russian campaign and as adequate implementation of our own policy commitments in the area.

Mr. Holland said that the new credits authorized by the Bank during the past nine months were very low; that he felt that our

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[1] Source: Department of State, Central Files, 103–XMB/1–1856. Confidential. Drafted by Waugh. Another memorandum of this conversation, dated January 18, drafted by Holland, is *ibid.*

political objectives in the area required that the total new credits authorized by the Bank in fiscal year 1956 should exceed $200 million, and that he was worried as to whether we would achieve this objective. Mr. Holland also brought out as a second point the question of the Bank's cooperating with the Commercial Attachés in our embassies.

Mr. Waugh answered by reading the highlights of the letter written two days previously, namely January 16, to Herbert Hoover, Jr., commenting on the record of the Bank in Latin America and giving figures for the loans authorized in the calendar years 1954 and 1955.[2] The letter also answers Mr. Holland's second point, upon which Mr. Waugh thought a meeting of minds had been previously reached during the visit to the six South American countries.

Mr. Waugh said that new credits authorized by the Bank during the first six months of the present fiscal year exceeded $50 million and he felt quite certain that the Bank could exceed $200 million for the present fiscal year on the basis of the applications now pending before the Bank, but added two provisos. First, that the sizable applications now pending and referred to in the aforesaid Hoover letter could be consummated, and second, that there would not be an adverse ruling with reference to the limitation that the IBRD has attempted to place on the Eximbank with reference to making development loans.

Mr. Waugh said that action by the Bank on two loans in Brazil was being held up at the request of the State Department. Mr. Holland assured Mr. Waugh that there was no longer any necessity for delaying the announcement of the action on the Santos Jundiai Railroad in Brazil. Comment followed with reference to the nitrate loans in Chile that are being held pending the passage of desired legislation. Mention was made briefly of the Colombia steel loan which is also being held pending the report of the IBRD mission.

Mr. Waugh then thanked the Secretary and commented on the desirability, from the standpoint of the Export-Import Bank, of the four regional offices of the Department of State coordinating their efforts and working through the "E Area," and more specifically, Mr. Prochnow, a banker of years of experience and the designated representative of the Secretary in attending the weekly meetings of the Bank's Directors.

SCW

[2] Document 80.

83. Memorandum of a Conversation, Department of State, Washington, January 27, 1956[1]

SUBJECT

Intensification of Activities of Export-Import Bank

PARTICIPANTS

Mr. Walter Sauer—Export-Import Bank
Mr. Turkel—ARA
Mr. Rosenson
Mr. Corliss
Mr. Corbett—E

Mr. Turkel started by outlining briefly the Department's interest in expansion of the activities of the Export-Import Bank, and referred to the three approaches the Department had in mind, namely (1) obtaining the assistance of our Embassies in Latin American countries in forwarding this general objective; (2) the use of PL 480 local currency for lending to enterprises borrowing dollars from the Bank; and (3) making Bank funds available to central banks or similar institutions for re-lending to small industry and agriculture. Practically the entire discussion revolved around the last named subject.

Mr. Turkel cited Export-Import Bank statistics which showed that the amount of exporter credits utilized up to the present had been very small. Since it was fairly obvious that this method was not meeting the needs of the little fellow in Latin America, there was need for a new approach. One method, which had proven successful elsewhere, would be to establish a line of credit in favor of some central institution which would then re-lend to local industry and agriculture.

Mr. Sauer thought that the disappointing showing made by the exporter credit (and line-of-credit) program so far was due to these causes: (a) the boom in the U.S., which makes American exporters less interested in foreign sales; (b) the great difficulty in getting information on small local borrowers in foreign countries; (c) the fact that the Bank will not consider exporter credits for such countries as Chile and Bolivia whose general payments position has ruled out credits in any form; and (d) the difficulty from a banking viewpoint of making loans to an unknown "Juan Cruz" without some one's guarantee.

Mr. Turkel pointed out that it is precisely because of the difficulty connected with "Juan Cruz" that a program of lending

[1] Source: Department of State, Central Files, 103–XMB/1–2756. Official Use Only. Drafted by Rosenson.

through a local central institution is attractive. Such an institution can get the necessary credit information on "Juan Cruz".

Mr. Sauer said that the Bank had been giving very careful attention to the possibility of a program of lending through local central banks but has decided against it, at least for the present. They feel that if such program were started in one country in Latin America it would have to be extended to others in that area and thereafter to other areas. The effect would be to jettison the whole exporter credit program, something which the Bank was not willing to do, at least not until they have given this program a fair trial. Mr. Sauer mentioned several objections to operating through foreign central banks. First it would distort the trade pattern. The central bank (or other institution) would channel orders for equipment in the way it saw fit and not necessarily to the supplier from whom the borrower has been accustomed to buy. Secondly, such an arrangement would make it difficult, if not impossible, to work out participations by the American exporter. The result would be that the central bank—and in turn the Export-Import Bank—would have to take 100% of the paper. Thirdly, in general the Bank does not like to abdicate its powers to some foreign institution.

Mr. Sauer said that the Bank is willing to operate through the intermediary of the Banco Central or the Banco Agricola provided the Export-Import Bank knows who the U.S. exporter is and the borrower willing to pay 20% down. Then Deere and Company, for example, can sell the Banco's note to the Export-Import Bank. The main thing the Export-Import Bank is interested in is in getting a bank guarantee. Of course it would prefer a central bank guarantee but that is not essential; it is willing to take a commercial bank guarantee. The Bank is having "a hell of a time" getting such guarantees now, even in terms of local currencies.

Mr. Sauer added that the Bank might eventually be driven to the "central bank" approach but they are not yet ready to admit that the export credit line program is a failure.

Sauer said that the contemplated circular instruction to the Embassies should stress the role of the local commercial bank in obtaining small loans from the Export-Import Bank for local industry and agriculture. He said he would have Mr. Cady prepare the draft of such a circular which would then be discussed with the Department.

The question of whether to include Bolivia, Chile and Argentina in the lists of posts to receive the circular was discussed briefly but no decision was reached. Mr. Sauer mentioned incidentally that the Bank is receiving about as many applications for exporter credits from Chile as from all other Latin American countries combined. He

thought the reason was that U.S. exporters have not been selling down there for the last year and a half or so.

As regards PL 480 funds to complement Export-Import Bank loans, he reiterated his approval.

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84. Memorandum From the Deputy Director for Operations (FitzGerald) to the Director of the International Cooperation Administration (Hollister)[1]

Washington, March 9, 1956.

SUBJECT

Replies to your Questions on the Latin American Program

1. *Dominican Republic.* I recommend that we discontinue our Technical Cooperation Program in the Dominican Republic as rapidly as possible. The country is under complete dictatorship in which, from all I can gather, the dictator clique is feathering its own nest at the expense of the people. Through the Agricultural Servicio, we may have had a chance to work with a reasonable number of the rank and file and leave with them some impression of U.S. interest and concern in their welfare. With this program being liquidated at the request of the Dominican Government, I see little prospect of influencing the course of events on the Island or contributing to the betterment of the lot of the people. The balance of the program would not be large, some $250,000, but I feel sure we are not getting our money's worth in the Dominican Republic and it would be much better to save it—(or even spend it in British Honduras where both the Government and the people would like our help!).

2. *Servicio Problem.* I believe in general the United States does dominate the Servicios in Latin America. I am convinced that almost without exception they do pay better, in some instances much better, salaries than the Government departments. I am asking Mr. Atwood to put together some information on Servicio wage scales compared to those in Government departments.

There is little doubt that the Servicio arrangement has gotten more done and got it done more efficiently and quickly than would the regular government departments. Through the device, the U.S.

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[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America. Official Use Only.

has been able to maintain control over funds which has greatly reduced, if not eliminated, wasteful and illegal uses; it has established non-political standards for the employment of personnel and provision of much greater security of tenure.

As desirable and necessary as the Servicio arrangement may have been twelve years ago, I have felt for sometime that we need to take a good long look at it today. If, instead of setting up separate administrative organizations of the Servicio type, we had started initially to strengthen regular government departments, improve their administrative and fiscal practices, push for civil service system providing reasonable security of tenure, and reasonable wage rates (it is undoubtedly true that in many government departments, wages are far too low to permit retention of competent personnel), we might be just as far ahead now in actual results and a good deal further ahead in developing the administrative competence of the government departments.

The reluctance to transfer Servicios back into the control of the regular departments of government is not limited to American personnel who may have administrative assignments in the Servicios themselves, but exists also in the local staff who, in many instances, rightly fear the reappearance of a political henchman employment system and a reduction in wages to below subsistence levels. I do not believe that this necessarily has to result, since, as long as we are contributing some resources in the carrying forward of a joint program, we should be able to insist on minimum standards of conduct as a condition of our assistance.

In all fairness, I should say that my views are not held by the majority of Mission Directors or I suspect by the majority of the staff of O/LA. I am, therefore, asking Mr. Atwood to comment on the above.

3. *Uruguay.* I don't have very many constructive ideas as to what might be done about our program in Uruguay. Uruguay is one of the most democratic countries in the world, certainly the most democratic in Latin America. It is also one of the most socialistic. Its Government is operated along Swiss lines with the Presidency changing hands every six months or a year. Over a third of the population of the country lives in the Capital, Montevideo. More and more of its production is getting into the hands of the government. Subsidies are general, social benefits are too high for the country to carry indefinitely. All in all, the future prospects look pretty depressing.

I am inclined to feel we should probably continue our existing program at least pending further consideration thereof. Certain minor matters of emphasis might be changed. For example, it appears that we are giving quite a little bit of help in the public

administration field. Are we at the same time expressing our doubts about the ability of the government to operate all kinds of businesses which should be in private hands? I don't know. We have no program in the field of education, and, in view of the generally satisfactory literacy situation, the standard type is probably unwarranted even if it were to be accepted by the Uruguayans. But are we doing anything at the university level or in senior government circles to influence the present trends in social thinking.

Perhaps a good hard-nosed businessman-economist (if there is any such combination) who had sufficient savvy to influence the financial and economic thinking in the country might be worth the gamble. He could not, of course, be sent down to Montevideo as an economic or financial adviser. The IBRD has had some missions in the country and I believe has made some loans to Uruguay. Their views in this general area should be sought.

Finally, if ever we have our evaluation staff set up, Uruguay might be an interesting country for them to cut their teeth on.

4. *Venezuela.* I believe we definitely should make no more contributions to the health servicio, and this program should become wholly Venezuelan operated and financed. We should, however, continue to provide technical advisers on the program to the appropriate ministry if the Venezuelans so desire. I am strongly in favor of financing the necessary overhead, both in Venezuela and in the United States, to service self-financed training programs in the United States. Finally, I believe we should be prepared to provide a limited number of technicians, particularly short-time consultants in any field in which the Venezuelans ask for such consultants. This would be my program for Venezuela—probable cost $100 to 150,000.

85. Memorandum of a Conversation, Department of State, Washington, April 26, 1956[1]

SUBJECT

Title II Relief Program; Peruvian Drought

PARTICIPANTS

Mr. Holland, Assistant Secretary of State
Mr. FitzGerald, ICA
Mr. Bernbaum, OSA
Mr. Atwood, ICA
Mr. Armstrong, IRD
Mr. Neale, ICA
Mr. McGinnis, OSA
Mr. Lynn, ED
Mr. White, ICA
Mr. Holmgreen, ICA

Mr. Holland said that, with reference to the Peruvian drought, he wanted to be informed how Title II of PL 480 was now administered. He raised the following specific questions: (1) What criteria is employed in determining when Title II is used instead of Title I; (2) Should we use Title II if the recipient country is willing to pay; (3) Would not the use of Title II for such natural disasters as droughts, floods, etc., create dangerous precedents.

Mr. FitzGerald stated that, in general, Title II would be used in the case of natural disasters or calamities where the afflicted country could not afford to pay for the relief. He stated that if the afflicted country was ready and able to pay for food required for relief purposes, Title II aid should not be extended unless there were political reasons to the contrary. He made the observation that, in general, Title II was usually the best way to render disaster aid when there was an emergency—where time was an important factor in giving relief assistance. He said also that Title II food should preferably be a gift to the afflicted people and that the food should go directly to the victims of the disaster.

Mr. White stated that in hearings on the Hill, Title II aid which generated work relief funds so that the victims could buy food were regarded favorably; e.g., programs in Libya and Pakistan. He said also that the current Congressional sentiment favored the use of Title I sales as a substitute for some types of foreign aid, and that if in Title II programs the victims buy the food (instead of receiving it gratis), Congress will expect us to take that fact into consideration in establishing our foreign aid programs. Mr. White said that in the

[1] Source: Department of State, Central Files, 411.2341/4–2656. Confidential. Drafted by McGinnis.

case of Haitian hurricane relief the food was given direct to the victims. Later on, work relief projects were developed. He asserted that the House Foreign Affairs Committee liked the Haitian type of Title II relief operation. In explanation of the Haitian type of relief agreement, he said that money generated by the sale of Title II food was the same as counterpart funds. These funds are deposited to the credit of the local government and used by mutual agreement (with the U.S.). In further discussions regarding the use of Title II for relief or disaster purposes, Mr. White indicated that Title II was so worded as to give ICA extremely wide latitude in judging the type of situation where aid could be rendered. For example, he said, Title II aid could be made available in situations where for political reasons we wished to render aid and mentioned that under this category it could probably be applied to relieve balance of payments problems.

Mr. White said that Title II aid amounted to $109 million in 1955 and $77 million so far in 1956. He observed at this point that there were various "repeat" programs under Title II, that is, that relief recipients "always came back".

Mr. Armstrong observed that Title II and III relief made available by the U.S. to European countries afflicted by the severe winter of 1955–1956 came to $67 million. He mentioned that this assistance was voluntarily offered by the U.S. in the form of an announcement by the President. He likened this program to the aid given to the victims of the Danube floods.

Mr. Holland then stated that he was puzzled as to why Peru should be given Title II aid under the criteria discussed. He stated that the case of Peru stood out in sharp contrast with that of Haiti. Peru, it seemed, had not asked for Title II aid, but would receive it; while Haiti, which had asked for such additional aid and could not buy food, would not receive it. ICA officials, in response, contended that Peru could not pay for all the food required to cope with the emergency without dangerous inflation, and that since Title II aid could be worked out much faster than Title I aid it was desirable to use the former. ICA also pointed to political factors such as the pending elections and the migration of needy Indians to Bolivia, which has already been in evidence. Peru was constantly fearful of an Indian revolt such as had occurred in previous years, and Indians goaded by need and in the knowledge of the violent land reform that had taken place in Bolivia, would be difficult to deal with if they had able leadership.

Mr. Holland then summed up the Peruvian situation as it appeared to him: Peru should receive Title II aid, not because it had requested it, but because Title I aid could not be rendered sufficiently quickly. Title I aid would be slow in arriving because Peru had not yet signed the Title I program that had been pending since

February. He recounted that the reasons that Peru had not yet signed this agreement were that they had been reluctant to commit themselves to purchase the "usual commercial marketings". He said that it did not seem logical to base a Title II grant upon this reasoning since Peru had it within its power to remove the obstacles to a Title I program. In short, we should not reward Peru for refusing to fulfill commitments to buy food from us, which was sorely needed, by giving them food under Title II. In terms of actual figures, Mr. Holland felt that we might furnish Peru 45,000 tons of grain (based upon political considerations and not inability to pay or other factors) with the understanding that Peru would buy from us the 40,000 tons under the uncompleted Title I agreement and the additional 90,000 tons, also under Title I, that it was believed that Peru required to meet the minimum requirements of the drought emergency.

Mr. Holland then summarized the general principles that were agreed upon with respect to Title II programs. Title II aid should be granted where neither the victims of the disaster nor the local government can afford to pay for relief supplies. In the case of the government, this means that the government can't pay without causing dangerous inflation or incurring an excessive debt. Other general principles were: (1) Where the local government is willing to pay for relief supplies, we would ordinarily want them to do so. (2) When Title II is used, we prefer to give the food direct to the people concerned. (3) Where food is given to a local government under Title II and the food is sold internally, the proceeds should be used for the benefit of the disaster victims in agreement with us.

86. Memorandum of a Telephone Conversation Between the Director of the Office of International Financial and Development Affairs (Corbett) and Alexander M. Rosenson of the Office of Regional American Affairs, Washington, April 27, 1956[1]

SUBJECT

Eximbank Loans to Latin American Central Banks

Mr. Corbett called me in response to my follow-up to him yesterday on this subject.

He said he had spoken about it to Mr. Sauer. The latter had told him that there is a division in the Export-Import Bank Board on this matter, some of the Board members favoring the idea, others being opposed to it. The matter has been "kicked around" in an informal manner but up until now the pressure of other business has not permitted a full-fledged policy discussion. Mr. Corbett informed Mr. Sauer that the Department is still very much interested in this proposal. Mr. Sauer indicated that it had not been shelved and is still a live issue.

[1] Source: Department of State, Central Files, 820.14/4–2756. Official Use Only. Drafted by Rosenson.

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87. Instruction From the Acting Secretary of State to Diplomatic Posts in the Other American Republics[1]

CA–8615 *Washington, May 2, 1956.*

SUBJECT

Expansion of Activities of Export-Import Bank

At both the Caracas and Rio Conferences the U.S. opposed the strenuous efforts of many Latin American countries to pass resolutions which would have favored development grants, soft loans, a regional development bank, price stabilization schemes for major Latin American exports, targets for loans to Latin America by public lending agencies, etc. To meet the capital hunger of the Latin

[1] Source: Department of State, Central Files, 103–XMB/5–256. Official Use Only. Drafted by Turkel. Sent to all ARA posts, except Buenos Aires, La Paz, and Santiago.

American countries we undertook, instead, to intensify and expand the activities of the Export-Import Bank. Our statement on this point at the Rio Conference of November–December 1954 was clear and explicit, and there can be no doubt that we are deeply committed. In Vice President Nixon's speech at the Kubitschek inauguration, we promised the other American republics that through the Export-Import Bank we would do our utmost to satisfy all applications for sound economic development loans for which capital was not reasonably forthcoming from private sources or from other official lending institutions. Eximbank has already made progress in implementing these commitments. It is clear, however, that the greater the increase in the Bank's Latin American lending activities the less likely is the United States to be faced with impossible demands and with a challenge to its prestige and influence at the scheduled Buenos Aires Economic Conference (which may be held before the end of 1956).

Eximbank has engaged in financing large-scale development projects in Latin America over many years and is, of course, continuing to do so. Its financial assistance at the request of U.S. enterprises (industrial, agricultural or mining) has not been widely sought until recently and up to now only a modest volume of such credits has been extended. The Department and Eximbank believe that a considerable expansion in both fields can be achieved by (1) a better understanding in Latin America of the Bank's operations, and (2) a better knowledge by the Bank of projects eligible for financial assistance in accordance with its policies.

The attached memorandum explains in detail the manner in which the Bank is prepared to assist foreign importers to obtain capital equipment on credit in the United States.

The Embassy is requested to give publicity, on a continuing basis and through such means and on such occasions as it deems appropriate, to the following:

(a) The availability of Eximbank financing for the importation of American goods by means of exporter credits, and in general the terms on which such financing is extended.

(b) The availability of Eximbank financing for private industrial agricultural and mining enterprises, large or small, by means of longer-term developmental or project loans.

(c) With rare exceptions, Eximbank finances only dollar costs. These, however, include all related dollar costs such as insurance, freight engineering fees, etc. It does not finance the local currency component of projects. (For the information of the Embassy only, local currency representing proceeds of sales of PL 480 agricultural surpluses may shortly be available for projects in which Eximbank is financing or will finance the dollar costs, and where local currency financing is a problem. Eximbank's basic rule against financing local currency costs rests on the practical ground that it is generally

imprudent to incur a dollar debt in order to have local currency to spend.)

(d) Where a shortage of dollar exchange exists, Eximbank favors those projects which either produce dollars by increasing exports, or save dollars by replacing imports. The reason is that the enterprise itself thus makes available dollar exchange in an amount sufficient not only to service the obligation but also to permit additional imports from the U.S. However, other worthwhile projects using U.S. capital equipment are by no means excluded from consideration, provided that the dollar exchange position of the importing country is such as to warrant the financing.

(e) Eximbank is prepared to carry out the policy stated at the outset of this instruction. This means that we must pay particular attention to the credit needs of the small and medium sized borrowers as well as the large ones.

(f) The Embassies are prepared to furnish information on Eximbank procedures as occasion warrants.

In the Department's opinion, commercial banks, producers' associations, and Chambers of Commerce are among the most useful channels for making the foregoing facts known to potential borrowers. It would also be desirable to make this information available on an informal basis to central bank and government officials.

The Embassies are also requested to report any cases coming to its attention of enterprises or projects requiring outside capital which, in its opinion, would be eligible for assistance from the Bank.

Hoover

Attachment

MEMORANDUM

The following information from the Export-Import Bank is furnished as a basis for answering questions concerning financial assistance in purchasing capital equipment from the United States.

Financial assistance from Eximbank may be requested by *either* the U.S. exporter or the foreign importer (public or private) of U.S. materials, equipment, supplies and services. In either case it is the foreign importer who becomes Eximbank's obligor and so must satisfy the Bank as to his credit standing.

I. Application for credit assistance presented by U.S. *sellers* of merchandise sometimes are called "exporter credits". Such applications may be filed on a case-by-case basis by the U.S. exporter, or may be presented by him as individual requests for financial assistance under previously established "exporter credit lines". These lines, based on applications by U.S. exporters having a history of export sales of productive capital equipment, provide for financial

assistance only after approval by the Bank of individual requests by the exporter for aid in connection with a single sale, or in suitable cases, a series of sales to a given private importer abroad such as a dealer.

Exporter credits and transactions under exporter credit lines must meet certain minimum requirements:

(1) The U.S. exporter is to receive from the foreign importer not less than 20 per cent of the invoice value in cash, usually by the time the goods are shipped.

(2) The U.S. exporter is to carry for his own account or with the assistance of his commercial bank at least one-fourth of the remainder or financed portion of the sale (equivalent to at least another 20 per cent of the invoice value).

(3) The Bank will participate by purchasing from the exporter or by guaranteeing the payment of not more than three-fourths of the financed portion, or 60 per cent of the invoice value. This participation is without recourse to the exporter and is pari passu with the portion which he carries.

(4) The obligations of the foreign importer in which the Bank will participate must be payable in dollars at a U.S. bank, should be payable at least semiannually, and should bear or include interest (also payable at least semiannually) at a rate not less than a minimum established by the Bank from time to time (presently 5½%). The obligations should have a final maturity of not less than one year and customarily carry final maturities which range up to 5 years or more in appropriate instances.

(5) The U.S. exporter pays the Bank a single one-time commission on the amount of the Bank's participation at the time the Bank purchases or guarantees the obligations of the foreign importer. The exporter if he so wishes may pass the commission charge on to his importer-customer abroad. The rate of commission is on a sliding scale increasing with the term of the obligations involved. The commission will be waived if the private foreign importer offers a guaranty of payment of his obligations by a commercial bank or other acceptable guarantor in his country.

(6) The U.S. exporter is responsible for presenting to Eximbank evidence to justify the creditworthiness of his proposed private importer-customer abroad or, in lieu thereof, evidence that payment will be guaranteed by an acceptable guarantor abroad.

(7) Where exchange controls exist, Eximbank requires that the foreign importer secure such exchange assurances as are obtainable under the regulations of his monetary authorities.

Exporter credits and transactions under exporter credit lines are an effective means of financing on medium or longer terms a wide variety of U.S. exports of capital equipment and related items the nature of which justifies the extension of such credit. This assistance is available for exports to all friendly nations with which the United States maintains normal trading relations. The extent to which particular exports to a given country can be so assisted depends,

however, on the dollar exchange position of the importing country and the end use to which the equipment will be put.

II. Applications to Eximbank presented directly by *foreign importers,* whether public or private, to finance imports of U.S. goods and services sometimes are referred to as "commodity loans" (cotton, tobacco, etc.), "project credits" (private mining, manufacturing, public utility, or other business development or expansion), or "development loans" (irrigation, highways, public transportation, public power, etc.) The foreign importer of U.S. goods and services, rather than the U.S. exporter, may be the appropriate applicant because the equipment is to be obtained from a number of U.S. suppliers rather than only one or two, or because the project is of such a size and would have such an impact on the economy of the importing country as to warrant direct discussion with the Bank, or because the terms appropriate for such a project are so long as to render it unlikely the U.S. supplier could participate in the financing on a pari passu basis.

In project or development loan financing, Eximbank:

(1) Does not require a specific cash payment of 20 per cent, but does require that there be adequate equity or other investment;
(2) Desires participation by U.S. exporters where it can be arranged appropriately, although it may be necessary that such participation be for a term shorter than that of the credit as a whole which may be for as long as 10 to 20 years in appropriate cases;
(3) May be able to accept obligations which in some instances carry an interest rate fractionally below the current minimum for exporter credits;
(4) Does not charge a commission; and
(5) In some cases may find it advisable to require the guaranty of a central bank or of the government itself.

III. Credit assistance to U.S. export trade provided by Eximbank under either of the devices outlined above, where medium or long terms are involved is equal or superior to that received by the exporters of any of the countries which furnish export credit insurance. The Bank's credits, which have ranged from $5,000 to $100 million to individual private companies abroad, are available to assist U.S. foreign trade wherever the extension of credit is appropriate but is not obtainable from private sources.

Except for commodity credits to central banks to finance the purchase of U.S. cotton, tobacco, etc., Eximbank financing is confined largely to exports of U.S. capital equipment and related services. This equipment ranges from the sale, on one hand, of a power shovel or some agricultural machinery to a distributor abroad for resale by him to his local customers, to sale on the other hand of all of the items obtained in the United States for construction of an

open-pit copper mine and smelter, or an integrated steel mill, or a large power plant.

In reaching a decision on each application for financial assistance, the Bank must determine, among other things, that there is reasonable assurance of repayment of the loan. This requires findings by the Bank that (1) the borrower will have earnings in local currency sufficient to meet his obligations, and (2) the monetary authorities of his country may be expected to be in a position to sell to the borrower the dollar exchange he will require to effect payment. Information available to the Bank (in part from Foreign Service Reports) is generally adequate with respect to second point. Data on the credit standing of the borrower, however, must be obtained in each case. In addition to information in WTDR's where currently available, the Bank requires that the applicant for credit assistance furnish the requisite financial statements and other data.

In the case of exporter credits, where credit information must be obtained by the U.S. exporter from his customer abroad so that it may be submitted to the Bank, approval of an application may be delayed because the information submitted is incomplete or is only grudgingly provided by the foreign importer. In an effort to overcome this difficulty, as well as to meet the situation where information on the credit standing of such an importer leaves something to be desired, the Bank is prepared to accept a guaranty of payment in lieu of detailed credit information. Such a guaranty consists of endorsement of the foreign importer's promissory dollar notes by a commercial bank or other suitable guarantor in the importer's country. To encourage the use of such a guarantor, Eximbank will waive payment by the U.S. exporter of any commission when the private foreign importer's notes are guaranteed by a private entity abroad.

88. Memorandum of a Conversation, Department of State, Washington, May 11, 1956[1]

SUBJECT

FY 1958 MSP

PARTICIPANTS

Mr. Holland, Assistant Secretary of State
Mr. Ohly, ICA
Mr. Atwood, ICA
Mr. Trigg, ICA
Mr. Sandri, Defense
Comdr. Kittredge, Defense
Mr. Williams, AR
Mr. Sayre, AR

Mr. Ohly of ICA described the purpose of the meeting as a preliminary exercise to review the basic assumptions underlying the Mutual Security Program in each region in order to meet the request from the Bureau of the Budget for an indication of the general level of appropriation needed for FY 1958. He then passed around a list of four questions.

1. To what degree and in what ways, if at all, should the Mutual Security Program in Latin America be reoriented or otherwise amended in FY 1958 to counter anticipated Soviet activities in Latin America and elsewhere?

Mr. Holland remarked that the Soviets were angling for diplomatic and trade relations in Latin America but were not likely to engage in any substantial technical assistance programs in this area. Mr. Holland expressed the view that the training program and exchange of persons should be doubled to meet the Soviet challenge. However, he saw no reason to reorient or amend the MSP in Latin America in FY 1958 in other respects.

It was pointed out that I.F.C. would probably be in operation within a few months. This, the existing policies with regard to Export-Import Bank loans and grant aid in cases of emergencies should be sufficient and no changes are necessary in our development assistance criteria in this area.

2. Should the FY 1958 Mutual Defense Assistance Program in Latin America be planned on the same assumptions and criteria with regard to support of Latin American military forces as now apply?

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[1] Source: Department of State, Central Files, 720.5–MSP/5–1156. Secret. Drafted by Williams on May 14 and revised by Sayre on May 17.

Mr. Holland felt that there was no need to broaden the criteria for grant military assistance.

Commander Kittredge expressed the view that there was a need for more flexible credit terms and a more flexible sales program to meet the Soviet challenge. Mr. Holland agreed that possible offers of Soviet arms within the hemisphere would create problems but he felt that we could meet this problem if we carried out existing programs in an effective manner.

In response to a question by Mr. Ohly, Mr. Holland stated that to implement effectively our policy regarding sale of military equipment on credit we should establish a revolving fund of $100 millions.

He thought that $100 millions was not an unreasonable amount considering that it would be spread out over 20 countries.

3. For purposes of FY 1958 planning, what conclusions or assumptions can be stated with respect to the following elements of the Latin American program?

(a) PL 480—Mr. Holland pointed up the problems which the large increase in available funds from this program would present in trying to see that the surplus agricultural disposals served U.S. policy, did not cause inflation or serve to promote an increase in government owned rather than private enterprises and finally did not disrupt normal supply channels.

Mr. Holland opposed any idea that the U.S. should appropriate dollars to facilitate the spending of the accumulated local currencies under PL 480. He did not want to see any new loaning agency set up in Latin America, and he opposed Mr. Atwood's suggestion that ICA might need to undertake a program of dollar loans for development purposes which might arise out of PL 480 programs.

(b) 1290–d and/or any versions of a "security fund"—The assumptions and criteria for the 1290–d programs were discussed. It was the general view that adequate provision should be made for the program but there appeared to be no reason to change the assumptions upon which this program is based.

Commander Kittredge referred to the problem of implementing this program under existing legislation. Mr. Holland questioned the advisability of attempting to implement the program for Bolivia under Section 401 of the Mutual Security Act, as amended, because of the adverse affect such action would have on our relations with Argentina. Commander Kittredge suggested that the program might be carried out under the legal authority for the MDA Program if that authority could be broadened to cover internal security. Mr. Holland agreed that some basis should be found to permit the United States to provide military assistance for internal security

where the situation demanded that we do so, but as he had stated in commenting on question 2, he did not believe that we should adopt internal security as a general criteria for the MDA grant program. (Mr. Ohly observed after the meeting that the legislative history of Section 105 (b) (4), which is the basis for the grant military program in Latin America, would appear to rule out carrying out internal security programs under that provision of law.)

(c) Atoms for peace—Mr. Holland felt that a generous allowance should be made to implement this program in those countries in Latin America with which we have agreements.

4. Would not the continuation in Bolivia, Guatemala, and possibly Haiti of Development Assistance Programs which in fact implement these countries own long-range economic development plans tend to undermine current policy criteria limiting Development Assistance in Latin America to *temporary* political or economic *emergencies* directly affecting U.S. security interests?

Mr. Holland said that they would, if continued indefinitely, but we planned on terminating this kind of aid to Haiti this year and to Guatemala after the next fiscal year. He hoped to eliminate it in the case of Bolivia as soon as it was possible to cut this country loose. Our policy in Latin America in this regard he felt should continue to be the granting of economic aid only in cases of temporary emergencies which the other country could not meet with its own resources.

Mr. Ohly asked about a possible technical cooperation program in the Argentine. Mr. Holland said he foresees one by FY 1958.

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89. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, June 15, 1956.

SUBJECT

Senator Smathers' proposed $100,000,000 development fund for Latin America

Some days ago I was asked to suggest an administration position regarding Senator Smathers' proposal to appropriate $100,000,000 to

[1] Source: Department of State, Central Files, 720.5–MSP/6–1556.

be utilized over the next 5 years in Latin America, one-half in loans and one-half in grants.[2]

I drafted a proposal which stated in substance that neither additional loan money nor additional grant money was needed, but that if, nevertheless, Congress insisted on appropriating funds for these purposes they should be appropriated in accordance with suggestions set out in the recommendation, i.e., loan funds to the Export-Import Bank and grant aid funds as a contingent fund to be managed by ICA. Before drafting the proposal I discussed it with Mr. Hollister.

Subsequently I was advised that a letter purporting to reflect the views of ICA and State had been sent to the Senate Foreign Relations Committee. I have not been supplied a copy of this letter, nor was I consulted as to its contents. If they are as reported to me I disapprove the letter and feel it would be a serious political mistake to send it.

At the Secretary's staff meeting on June 14 I raised this problem. It was discussed in the presence of Mr. Hollister and the decision was made to withdraw the letter referred to and replace it with one in whose drafting I would participate.

I am advised that on the afternoon of June 14 Mr. Hollister instructed that the letter not be withdrawn because it had been seen by Senator Smathers. I was not consulted about this decision, nor was I advised of it.

I am advised that Senator Smathers is offended by the terms of the letter referred to and that he is determined to press his proposal. I am further advised that it might be possible to persuade Senator Smathers to abandon his existing proposal for something more reasonable such as a considerably smaller appropriation for something like exchanges of persons.

I strongly recommend:

1) that the decision made at the staff meeting be carried out and the letter withdrawn,

2) that in accordance with the decision at the staff meeting a new letter be drafted and sent to the Senate Committee today stating that no additional funds are needed either for loans or grant aid but that if, despite the administration's advice, the Congress decides to appropriate additional funds, it should be done in accordance with suggestions set out in the letter. This does not constitute an approval of the Smathers proposal, but it does avoid the very unfortunate political consequences of a blunt disapproval of his proposal.

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[2] Senator Smathers introduced his proposal on June 4, as an amendment to H.R. 11356, a bill to amend the Mutual Security Act of 1954.

3) that you instruct Dr. FitzGerald (Mr. Hollister is out of the city) to coordinate with State in carrying out the foregoing staff decisions.

I would be happy to confer with you, Dr. FitzGerald and Mr. Barnes if you feel that this is desirable.

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90. Letter From the Assistant Secretary of State for Congressional Relations (Hill) to Senator Walter F. George[1]

Washington, June 28, 1956.

DEAR SENATOR GEORGE: You have requested the opinion of the Department of State regarding the amendment to H.R. 11356, proposed by Senator Smathers, to create a developmental fund in the amount of $50 million for Latin America. Of this amount, at least $37.5 million would be available for loans and the remainder for grants. The purpose would be to contribute to economic development in the twenty Latin American countries.

The Department of State is fully in accord with the objective of making a real, effective contribution to economic development throughout the other American Republics.

In the field of public developmental loans the Administration has encouraged Latin American borrowers to utilize the facilities of the Export-Import Bank and the International Bank. During fiscal year 1955 the Export-Import Bank authorized new credits in Latin America of $284 million and the International Bank $123 million, or a total of $407 million. The lending capacity of the Export-Import Bank is today $5 billion and its uncommitted funds available to satisfy future loan applications are at present about $1.6 billion. The foregoing figures give you an indication of the present rate of public developmental lending to Latin America, as well as of the resources available for that purpose.

The Department believes that any increase in loan funds for Latin America should be made to the Export-Import Bank. The Bank's personnel is experienced and thoroughly familiar with Latin America and therefore should have the responsibility for the management of all loan funds.

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[1] Source: Department of State, Central Files, 720.5–MSP/6–2856.

The general field to which the proposed amendment extends is that of grant assistance. Latin America does not seek "hand-outs" from the United States. It prefers for its dollar income to rely upon such sources as trade, private investments and sound official loans. Nevertheless, the Administration has followed the policy of making available grant assistance in the hemisphere to cover emergency needs exceeding the resources available to the affected governments. For the ensuing fiscal year the Administration has requested $27 million for developmental assistance, $32 million for technical assistance and $35.5 million for military assistance. These requests have now been increased by the amount of $10 million, which the House of Representatives added to the $27 million requested for developmental assistance.

These sums of money, in the opinion of the Department of State, are adequate to meet all present and foreseeable needs during the coming fiscal year in the fields to which they relate. It is believed that any unforeseen requirements can be met from the proposed contingency fund of $100 million. If, nevertheless, the Congress deems it desirable to increase the appropriations, the Department would recommend that this be effected through the establishment of a contingency fund for Latin America, to be administered by the ICA.

Sincerely yours,

Robert C. Hill[2]

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[2] Printed from a copy which bears this typed signature.

91. Memorandum From the Director of the Office of Inter-American Regional Economic Affairs (Turkel) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, June 29, 1956.

SUBJECT

ICA's Role in Private Investment Promotion

I have read Mr. Flesher's memorandum of April 30, 1956 on private investment promotion[2] and agree with the broad objectives. I was so provoked by the methods proposed to attain those objectives that I find it difficult to be temperate.

I agree that ICA does have a responsibility to foster private enterprise and private investment abroad but I do not agree that ICA has been charged with a *specific* directive to create a favorable investment climate. I feel rather that, in the carrying out of its basic statutory functions, ICA should have regard for the creation of conditions which favor private enterprise. The memorandum poses an innocent assumption: we must all promote private enterprise. Based on that simple assumption a number of foolhardy things are proposed. I am amazed that with all the really useful work to be done in the industrial field by way of increasing productivity and spreading technical know-how, ICA deems it necessary to spread out into very dubious directions.

My views on the specific proposals follow:

1. To insure that the regular aid program fosters private enterprise. I concur completely.

2. To finance supporting facilities such as roads, ports, power. I concur generally.

3. To assist an enterprise to negotiate agreements with host government on taxes, expropriation, repatriation of capital and earnings, and convertibility. Here I enter a vigorous dissent. It is a situation fraught with great potential danger for the United States for any United States officers (and especially if they are inexperienced in foreign affairs) to negotiate with foreign governments on these subjects on behalf of private individuals about to invest their capital. Insofar as it is a matter of a specific enterprise, it is one for the investor to settle. Insofar as concerns negotiations on these *general* subjects, such negotiations are traditionally the responsibility of the regular Foreign Service and I do not believe that we have done so badly as to be ousted from that field.

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[1] Source: Department of State, ARA/REA Files: Lot 61 D 248, International Cooperation Administration.

[2] Not printed. (*Ibid.*)

4. To provide technical assistance. I agree but would assert that we should keep a vigilant eye on the kind of people who are sent abroad to achieve that objective. Some of those I have seen, especially retired older men are wonderful—others reflect little credit on the United States.

5. Pay for training part of the management, key technicians and skilled labor *within the operating facility itself.* I would be reluctant to concur until I had seen an actual set of facts. Only then could I decide whether that set of facts constitutes a U.S. subsidy, a "boondoggle" or something really essential to a successful enterprise and ultimately to the security of the United States.

6. Pay for private banking and investment companies to prepare prospectuses, promote companies and arrange for sale of equities. My sole comment is that I wish the House Appropriations Committee could see this proposed use of taxpayers' money. We wouldn't then be bothered about the problem of division of responsibility for promoting private enterprise.

7. Make available proceeds of PL 480 for working capital and other short-term loans. This is a vast subject. In general, I feel that when a firm operating abroad is in need of working capital, it should get it by reinvesting its earnings or by raising more equity capital. If they can't do that, I don't like our assuming the risk of using PL 480 funds. We have plenty of good outlets for PL 480 funds without buying this turkey.

I am in hearty agreement with the idea that ICA should have only a supporting role. Why doesn't Mr. Flesher suggest that the fellow who wants to borrow PL 480 funds from us, pay for the services of the financial consultants in the first place, and out of his own pocket, and then, if the report is favorable, we could decide what assistance to give him.

I don't understand the concluding proposed prohibition against ICA participating financially in any project, in the light of the prior proposal to lend PL 480 funds. I assume what Mr. Flesher means is that ICA should not take any equity participation although it may provide loan capital.

92. Memorandum From the Deputy Assistant Secretary of State (Rubottom) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, August 22, 1956.

SUBJECT

Economic Aid for Latin America in Future Years

Following your discussion with Dr. FitzGerald on August 16,[2] I have been trying to analyze our needs for future economic aid in Latin America. I talked to Dr. FitzGerald once on the telephone and have discussed the matter once or twice with Phil Williams and Bob Sayre in our own bureau. We need to define our needs and set our policy goals promptly, both for the purposes of the NSC policy paper and in order to facilitate ICA planning.

For the purposes of clarifying my own thinking, I have devised the following table:

	Programmed Carry-Over end '56	(New Requests)			
		'57 (Appropriated)	'58 (est.)	'59 (est.)	Total
Bolivia	16	20	10	10	56
Guatemala	8.5	15	12		35.5
Haiti	3				3
Miscellaneous	1.5	2	5	5	13.5
Totals	29	37	27	15	108
Smathers Amendment			15	?	?

Starting with a carry-over at the end of FY 56 of $29 million, and adding to that the money appropriated for this fiscal year by the recent Congress of $37 million, plus $15 million for the Smathers Amendment, and projecting estimated requests for FY 58 and FY 59, we wind up with relatively large amounts of aid for Bolivia and Guatemala, as well as a total for the area of $108 million. I have not included the Smathers Amendment because of the very special conditions which apply to it and because of its uncertain future, and also because of my belief that it need not figure in our discussion at the moment, especially if we are successful in placing it under the Export-Import Bank for administration—actually, we should not forget that, whoever administers it, we are not limited in our loan authority to just 75 per cent of the $15 million, but could actually

[1] Source: Department of State, ARA/REA Files: Lot 63 D 87, FY 1957. Secret.
[2] No record has been found in Department of State files.

loan more than 75 per cent and up to the full amount, if we so decided.

Perhaps our real point at issue with ICA comes down to the question of future aid requests, that is, in FY 58, 59, and possibly beyond that time. The $29 million of carry-over now on the books is already actually programmed and, in most cases, actually contracted for. Certainly, Bolivia and Guatemala, as well as Haiti for its remnant, are counting on receiving the amounts programmed and carried over in the pipeline, as well as the amounts appropriated for FY 57. Perhaps with careful programming of these new amounts appropriated, it will not be necessary to request any new sums for aid in the coming years, except for "miscellaneous" purposes. Or, perhaps, we could leave in our estimate, say $10 million for Bolivia, and omit any future requests for Guatemala; in our knowledge that with $8.5 million carry-over plus $15 million of new money just appropriated, Guatemala would have enough to reach the point of economic independence. In any event, as I now see it, the unresolved question between ourselves has to do with the projected needs for new money in FY 58 and 59.

Our immediate problem is illustrated by the attached papers. Tab A is a draft letter from ICA to Under Secretary Hoover,[3] based on Dr. FitzGerald's understanding of the position you took in your conversation with him last Thursday. The memorandum has yet not been mailed. I told him that I would discuss this matter with you, and that we would attempt to arrive at a common understanding with ICA on future aid requirements. It appears to me that he has interpreted your remarks too literally insofar as expenditures for FY 57 are concerned. Actually, we would need to have an estimate or an educated guess, at least, as to how much of the $29 million carried over from FY 56 and previous years can actually be spent this year, plus whatever part of the newly appropriated $37 million (leaving out the Smathers Fund) would be spent and added to the carry-over funds. That could be $38 million, or it might be $43 million or $48 million. The real kernel of the problem is the underlined sentence in numbered paragraph 2 of the FitzGerald draft memorandum, which states that ICA was planning to request $30 million–$35 million when the Congress meets later this year. There is our basic difference, it seems to me. Whereas we assume a sharply diminishing requirement for aid, ICA seems to be assuming a continued state of emergency requiring relatively large amounts of aid in the years to come. Turning to the last paragraph of the draft memorandum on page two, I believe that we could agree with all of his language except the part where he again says that he thinks ICA should

[3] Not found with the source text.

develop a $30 million to $35 million program request for the coming session of Congress.

Tab B is a memorandum from Mr. Hollister to Mr. Hoover[4] in which, at the top of page two, ICA proposes to program $10 million for Guatemala, instead of the $15 million which has been appropriated by Congress, justifying this position on your statement to Mr. FitzGerald and on our figures in the annex to the NSC paper. Here again I believe ICA is making an extreme interpretation of our position.

Tab C is a proposed reply to a letter received from Ambassador Sparks several weeks ago.[5] The issue is rather clearly defined by his letter and our proposed reply, in my opinion. We take the position that we should proceed with the programming of the $15 million of aid appropriated by the last Congress for FY 57, but at the same time, we urge him to educate President Castillo and other Guatemalans that this is the last of the aid from the United States and that any tapering off will consist of future deliveries from this year's and previous years' grant aid, rather than extended amounts to be appropriated in the future by the Congress.

I hope to have an opportunity to discuss this with you and with Phil Williams later this afternoon.

[4] Not printed.
[5] Not found with the source text.

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93. Memorandum From the Under Secretary of State (Hoover) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, August 25, 1956.

I discussed with Mr. Hollister over the telephone this morning the situation with regard to the split that has developed between State and ICA over the ICA program in Latin America for the next three years.

Mr. Hollister disagreed with the action taken by Mr. FitzGerald in the Planning Board and agreed with the State position which outlined a tapering off of the grant assistance program during the

[1] Source: Department of State, Central Files, 720.5–MSP/8–2556. Confidential.

next three year period and placing emphasis on expanded activities of loaning agencies such as the Eximbank, IBRD and IFC.

Herbert Hoover, Jr.[2]

[2] Printed from a copy which bears this typed signature.

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94. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Director of the International Cooperation Administration (Hollister)[1]

Washington, September 13, 1956.

SUBJECT

Smathers Fund

Today I had a talk with Secretary Humphrey regarding the issue of whether the Smathers Fund should be managed by the Export-Import Bank or by ICA.[2] We came to the following agreement which the Secretary asked that I submit to you and to other interested governmental officials.

We feel that the management of the fund should be entrusted to ICA and that ICA should take the following steps:

(1) You personally should agree with the Acting Assistant Secretary of State for Inter-American Affairs on two or three loan projects which satisfy the following two tests:

(a) First, the project should be one falling within the fields mentioned in the legislation setting up the Fund, i.e. such fields as health, social welfare or whatever the legislation recites;

(b) Second, the projects should be of the kind that the Export-Import Bank is now financing. For example, the Export-Import Bank has in the past financed hospitals, irrigation systems and other projects which would qualify under the wording of the legislation.

(2) You should then request the Export-Import Bank to investigate these projects identified by you in order to determine whether they are suitable for loans.

(3) If the Export-Import Bank investigation indicates that a loan would be sound for these projects you should then instruct the

[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America. Official Use Only.

[2] No record has been found in Department of State or Department of the Treasury files.

Export-Import Bank to work out the loan agreement, make the loan and service it for you.

The foregoing plan has the following merits:

(1) It avoids the problems with the Congress which some people feel would be sure to arise if the Executive were to assign the administration of this fund to the Export-Import Bank rather than to the ICA.

(2) It ensures that the fund is devoted to purposes which are contemplated by the legislation.

(3) This course would also ensure that the money is used for purposes for which the Export-Import Bank is using its other funds available for loan. That means that if a comparable or similar project is proposed in the next Congress we can take the position that it is unnecessary and point to the fact that the present fund was used for purposes for which all of the other funds of the Bank are already available.

(4) This plan would enable you to dispose of the entire Smathers Fund without setting up any new organization, office or force within ICA for the purpose of administering the Smathers Fund. You would identify the projects yourself, and all the balance of the work would be done by the Export-Import Bank.

(5) This plan would enable you to dispose of the Smathers Fund without having the ICA Mission Chiefs around the hemisphere make a survey of the lending possibilities in their respective countries, a survey which would surely produce an aggregate of hundreds of millions of dollars of possible projects and which could be used as a basis for urging the next Congress to authorize a vast ICA lending program in the hemisphere.

I believe that the solution outlined above is a good one. I have discussed it with Mr. Rubottom who will be Acting Assistant Secretary of State for Inter-American Affairs, and he also approves it.

The foregoing plan has not yet been cleared with Mr. Hoover or with Mr. Waugh. It simply reflects the results of a conference between Secretary Humphrey, Mr. Randolph Burgess, Mr. Andrew Overby and myself.

95. Memorandum From the Director of the International Cooperation Administration (Hollister) to the Under Secretary of State (Hoover)[1]

[Washington,] September 14, 1956.

SUBJECT

"Smathers' Amendment" Fund

I believe some early decision should be made with respect to so-called "Smathers' Amendment" funds. There are two matters at issue:

1. The question of administration. I know it is your preference that the Export-Import Bank handle these funds, probably applying somewhat different criteria to that part of the funds disbursed on a loan basis, than those criteria which the Export-Import Bank usually follows in making its loans. I now understand that Sam Waugh objects to taking over these funds and he tells me he has George Humphrey's backing, although I have not talked to George about it.

While I am inclined to think that the Congressional history indicates that the administration of these funds should be a responsibility of ICA, I have no objection to turning it over to the Export-Import Bank if that is your wish and they will take it. The question ought to be settled however.

2. The expenditure estimates for fiscal years 1957, 1958, and 1959 which have been filed with the NSC in connection with the statement of United States policy toward Latin America make no allowance for these Smathers' funds. If they are to be obligated this year they will, to the extent so obligated, be spent in 1958 and 1959, and will therefore increase the expenditure figures in the appropriate year unless reductions are made in the currently planned country programs for Guatemala and Bolivia.

John B. Hollister

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[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America.

96. Memorandum From the Director of the International Cooperation Administration (Hollister) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

[Washington,] September 28, 1956.

SUBJECT

Smathers Fund

I have read with interest Mr. Holland's memorandum of September 13 regarding the management of the so-called "Smathers Fund" which was, for some reason, not received in ICA until late on September 25.

I agree with his suggestions that the management of this portion of the appropriation should be the responsibility of ICA. However, I do not see any particular reason to limit the number of projects to "two or three" as he suggests.

Of course I agree that the projects should be in accord with the legislation, but I am afraid I can't agree that they should be limited to "the kind that the Export-Import Bank is now financing" as this would preclude the consideration of most projects to which the legislation specifically indicates preference should be given.

With regard to paragraph (2) of the memorandum, consultation with the Export-Import Bank has been a regular part of the procedure followed in operating our program in Latin America for the last year and has proved to be extremely valuable.

With regard to paragraph (3) of the memorandum, we shall, of course, use the machinery of the Export-Import Bank for loans of these funds as we do now with respect to all other loans.

John B. Hollister

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[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America. Official Use Only.

97. Memorandum From the Regional Director for Latin American Operations (Atwood) to the Director of the International Cooperation Administration (Hollister)[1]

Washington, October 15, 1956.

SUBJECT

The FY–1957 Technical Cooperation Program for Latin America and the Extent to which Current ICA/W Policies have been Incorporated in its Development

This is a brief statement of the efforts which have been made in developing the FY–1957 Program Plan to incorporate current ICA policies.

The FY–1957 Latin American program has been developed in five major steps summarized as follows:

(1) In September and October of 1955 the missions in the Field were asked to develop and present the program for FY–1957. Together with a full set of guidelines, two major criteria were given them in connection with their program development: (a) to assure that the USOM and the American Embassy were satisfied that the objectives of the programs and projects proposed were consistent with and would help to achieve U.S. policy objectives in Latin America, and (b) to assure that the programs and projects were appropriate and effective contributions to selected host country programs which had objectives consistent with U.S. policy and which were wholeheartedly backed by the host country with both moral and financial support.

(2) As the proposed programs from the field were received during October they were put through the country-by-country review and development procedure which O/LA has developed and which brings together representatives from all of the DD/S offices, the Personnel and Controller's offices of DD/M, DD/P, the General Counsel's office, the Regional and Economic Bureaus of the Department of State, and the Department of Defense. During this review, which was carried on during the latter part of October, the same guidelines and criteria which had been sent to the field were applied to the program, country-by-country. In addition, criteria concerning funds to be "carried over" in project (including cooperative service and other project) accounts and personnel recruitment problems were considered. In reducing the field submissions totalling over $37,000,000 to a figure of $32,350,000, criteria calling for concentration of emphasis and elimination of marginal and peripheral projects

[1] Source: Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America.

were applied. The program was then presented to the Bureau of the Budget on November 3, 1955 with hearings held between November 19 and December 8.

(3) Following the Bureau of the Budget Hearings, further study of the program took place. USOM and American Embassy comments were taken into consideration during a thorough "Latin American Working Group" review during February 1956. (The Lima Conference of USOM Directors February 4 to 10, 1956, provided you an opportunity of presenting personally to the field representatives ICA principles and policies. At this conference Mr. Lyon and Ambassador Briggs elaborated U.S. foreign policy objectives and top officials of ICA spelled out policy from the regional, technical services, administrative and fiscal points of view. Dr. Russell, Mr. Sheppard and Mr. Murphy joined us in holding individual conferences with the USOM Directors as well as addressing the Conference in connection with Agency goals. Individual programs were discussed with the Directors.) Following the "Working Group" review the draft of country programs to be submitted to Congress was distributed throughout ICA and the Departments of State and Defense, which of course involved further review and refinements in the total program. On March 14 the Illustrative Program was submitted to the Congress; Congressional Committee Hearings were held from March 20 to June 30; and the Appropriations Act was signed by the President on July 31, 1956.[2]

(4) Preparatory to presentation to you for approval in early July 1956 the program was again reviewed in the light of comments from the field and from DD/S, DD/M, General Counsel, Department of State and the Bureau of the Budget. Guidelines for the implementation of the 1957 program were received from DD/O on July 23, and over-all directives on the "Refinement of the FY–1957 Mutual Security Program" were issued from July 25 to August 8. Field comments on the program presented to Congress were considered during another ICA/W review of country program plans, between July 25 and August 31, 1956. The Program Plan (printed copies) was submitted to appropriate officers for review and clearance on September 6. The Program Plan was also submitted to, and approved by, the Board of Directors of the Institute of Inter-American Affairs on September 13.[3] Following a review of personnel recruitment problems and an agreement regarding personnel "ceilings", the Pro-

[2] Apparent reference to the Mutual Security Appropriations Act, 1957 (P.L. 853); for text, see 70 Stat. 733.

[3] A copy of the minutes of the September 13 meeting of the Institute's Board of Directors is in Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 309, Latin America.

gram Plan was submitted for approval to the Director of ICA on October 9.

(5) Directives to the field have been prepared in draft, which set forth implementation levels, technician ceilings, criteria for program implementation and revised criteria and procedures in the field of budgeting and accounting. All of these directives are aimed directly or indirectly at bringing about a concentration of emphasis in the programs for each country, a tightening up of the administrative, fiscal and technical plans for each country program, the elimination of peripheral and marginal operations, and an orientation of the program toward the most effective implementation of policy objectives.

The Program Plan for Latin America for FY–1957 totals $32,350,000, the same as the program presented to Congress. The present implementation level for FY–1957 is planned at $30,400,000. The Program Plan for FY–1956 was presented to Congress at the $30,000,000 level, and with an over-program component totalled $32,664,800. The actual program for FY–1956 exceeded $29,000,000 in obligations, inclusive of $1.5 millions in reobligated prior year funds.

I must frankly admit that the results of the application of the above-mentioned criteria and policies are not very evident in the printed Program Plan submitted to you for approval, which lists 525 projects in Latin America. This figure is somewhat less than the 598 projects extant as of June 30, 1955, and the 641 individual projects that were planned last year; and, thus, it illustrates some concentration of emphasis in program planning. A preliminary count shows that at least 31 projects, involving a little over $1,000,000, have been completed or discontinued. Slightly over 30 new projects have been added.

As long as we classify the programs that we are carrying on in the field in terms of an arbitrary functional breakdown, it is practically impossible to indicate in the statistical data of a Program Plan the extent of concentration of emphasis that has taken place. For instance, in Bolivia you will find that 63 separate projects are listed. However, as you know, there are only about 4 or 5 major programs in Bolivia, and most of our energies and money are concentrated in 3 or 4 of them. In Chile there are 29 projects listed in the Program Plan, but almost half of our total energies are concentrated in one major program—the Plan Chillan—and the rest is really concentrated in only 1 or 2 programs.

The small program in the Dominican Republic had been fragmented in FY–1956 into five fields of activity. Our review reflected that our greatest impact was being made in the field of Education and that projects in Health and Sanitation, Agriculture, Public Ad-

ministration and Industry were either of marginal significance or could be carried on by the Dominican Government without our assistance. Following this review the program for FY–1957 was limited to a single field of activity, Education, and our efforts in that field are being concentrated in a single project for the training of rural school teachers and the improvement of rural schools.

To summarize, I honestly feel that the program in Latin America has been tightened up, both as regards effectiveness in carrying out U.S. policy objectives and in terms of marginal or peripheral activities. Furthermore, I feel sure that considering the additional detail of directives we are sending to the field for actual implementation of the 1957 Program, we will expect to come even closer to meeting the criteria and policies that you have approved.

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98. Memorandum of a Conversation, Washington, October 30, 1956[1]

SUBJECT

Administration of Smathers' Amendment Fund

PARTICIPANTS

Mr. Waugh, President, Export-Import Bank
Mr. Blowers, Director, Export-Import Bank
Mr. Overby, Treasury Department
Mr. Willis, Treasury Department
Mr. Atwood, International Cooperation Adm.
Mr. Rubottom, Dept. of State (ARA)
Mr. Prochnow, Dept. of State (E)
Mr. Kalijarvi, Dept. of State (E)
Mr. Corbett, Dept. of State (E)

Mr. Rubottom reviewed the history of Executive Branch discussions on the administration of the Smathers' Fund. Other members of the group also added relevant pieces of the history of the subject. Mr. Rubottom then stated that the Department's position was that this Fund should be administered by the Export-Import Bank in the same manner and under the same criteria as it handles its own funds.

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[1] Source: Department of State, Central Files, 700.5–MSP/10–3056. Official Use Only. Drafted by Corbett.

Mr. Waugh then expressed the view of the Export-Import Bank to the effect that the Bank did not wish to be responsible for the management and administration of this Fund. He cited a number of reasons in support of this view.

Mr. Prochnow and Mr. Rubottom summarized the discussion by saying if the Bank was unwilling to take on this responsibility or some variation of it (as suggested by Mr. Holland to Mr. Hollister in September) then it was quite evident that the Fund would have to be administered by the International Cooperation Administration with the Export-Import Bank acting as agent for ICA as it does in the case of other loans made by the latter agency. This decision was taken by the group as it was agreed that all interested agencies would be notified by a copy of the memorandum of the meeting.

It was also agreed that the group would not now decide upon the terms, conditions and projects to be financed by loans from this Fund. These subjects would be dealt with by the agencies concerned, namely State and ICA and by the NAC with respect to the financial aspects.

Mr. Waugh offered the cooperation and assistance of the Bank to the ICA in the carrying out of its responsibilities under this amendment.

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99. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Special Assistant for Mutual Security Affairs (Barnes)[1]

[Washington,] January 24, 1957.

SUBJECT

LPG Paper No. 5[2]—Smathers' Amendment on Latin America

ARA's views on the problem raised by this paper are as follows;

1. ARA does not support a request for new funds for Latin American regional economic development (Smathers' Amendment) in FY 1958. It believes these funds are unnecessary. However, if a

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Smathers Amendment. Official Use Only. Drafted by Williams.

[2] Reference is to a Legislative Program Group (LPG) paper concerning possible additional appropriations under the Smathers' Amendment for Latin America, submitted to the MSP Studies Committee in the Department of State on January 22. No copy of the paper has been found in Department of State files.

Congressional proposal along these lines is introduced again, ARA will not formally oppose it; rather it believes the Executive Branch should indicate the belief, as it did last year, that if the proposal were adopted it could be used effectively for the intended purposes.

2. ARA would support a request that the unobligated balances from FY 1957 Smathers' Amendment funds be made available in FY 1958. The authorizing legislation (MS Act of 1956—PL 726 84th Congress[3]) indicated a Congressional intent to have these funds remain available until expended and the Executive Branch indicated it could use them effectively for the intended purposes. It would seem proper to assure the Congress of an intent to carry out the Executive Branch position, for which more time is necessary, in order to find and approve proposals that meet the terms of this legislation and the criteria established, that they are sound, bankable, and for which financing is not available from normal domestic, foreign, or international sources.

3. If any of the funds are continued, ARA does not wish to eliminate the loan provision, believing that preference should be given to proposals that meet the terms of the legislation and the above criteria.

4. ARA believes that the use of these funds to assist international organizations should be decided on a case by case basis.

5. As assistance from these funds to an international organization may be approved, ARA believes authority should be sought to provide such assistance without the need for any special Presidential determination.

6. ARA does not approve of the use of these funds for any military purpose.

[3] For text, see 70 Stat. 555.

100. Editorial Note

During February 10–20, General J. Lawton Collins and Ambassador John C. Hughes, traveled to Latin America as representatives of the President's Citizen Advisers on the Mutual Security Program (popularly known as the Fairless Committee, after its Coordinator, Benjamin F. Fairless) to evaluate mutual security programs in Bolivia, Brazil, Guatemala, and Peru. A copy of the memorandum con-

taining their report, which bears a handwritten date of February 23 and is signed only by Collins, concludes as follows:

"27. We recommend that the following section be included in your report to the President:

Latin America

"An evaluation of the effectiveness of the Mutual Security Programs in Latin America in achieving United States objectives requires a definition of these objectives. We believe these are:

"(1) To keep the potential enemy out of Latin America by eliminating Communist influence and strengthening United States influence;

"(2) To safeguard essential military bases and facilities from potential enemy action, especially sabotage;

"(3) To safeguard the production of strategic raw materials in Latin America and assure their access by the United States;

"(4) To assist in promoting stable, self-reliant expanding economies which will lead to increased production, mutually advantageous trade and investments, and rising living standards.

"In our preoccupation with the more immediate threats of Communism in other parts of the world, we should not lose sight of the fact that any successful Communist penetration in the Western Hemisphere would be an even greater menace to the security and well-being of the people of all the Americas. A continuation of effective mutual aid programs would be much less costly as 'preventive medicine' than more difficult surgery if the disease of Communism were permitted to develop in North and South America.

"We realize that some military aid may have to be granted to the Latin American countries over and above that which is strictly warranted by the foregoing objectives. Some of these countries will insist on military equipment for prestige and other purposes, and will purchase it from other sources, possibly Czechoslovakia, if we are adamant in not supplying it. However, our compliance with their requests must be kept to the minimum necessary to prevent military penetration of Latin America by other foreign countries, particularly the Soviet bloc.

"We strongly recommend the continuance of technical cooperation for some time to come and consideration of its expansion within existing fields. Technical cooperation should be closely coordinated with similar activities carried on by private business and by both public and private banking institutions. It should not be extended in such fields as individual productivity studies or the promotion of individual investment opportunities in the field of industry. What we have seen of technical cooperation, plus what we have learned from American businessmen resident abroad and from nationals and officials of the countries we have visited, convinces us that the technical cooperation programs strengthen United States influence enormously. In the present world situation we need the firm friendship of the Latin American countries. We feel that the technical assistance program contributes powerfully to the security of the Western Hemisphere.

"We recommend that there be no large scale grants for economic development. We feel grant aid is warranted only when our neighbors are faced with emergencies beyond their power to handle, although some flexibility must be given to the interpretation of this principle. We feel sure in the case of Bolivia that grant aid must be continued, at least until present stabilization program proves to be a firm success. In the case of Guatemala, we feel that grant aid can be reduced as conditions improve but cannot yet be eliminated. Reliance must be placed upon private investment, domestic and foreign, supplemented by loans from the Export-Import Bank and the International Bank. We do recommend that limited economic development assistance in the form of loans should be made available to assist the financing of projects which will increase the effectiveness of technical cooperation projects and for which other sources of financing domestic or foreign, are not available on reasonable terms." (Eisenhower Library, Fairless Committee Records, 1956–1957, Report—Latin American Trip)

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101. Editorial Note

Between March 8 and 10, Director of the International Cooperation Administration Hollister attended a Mission Directors Conference in Habana, Cuba, where he discussed with them the status of ICA programs in the respective Latin American countries. Memoranda of these conversations, drafted by the Executive Secretary of the ICA, John W. McDonald, and bearing drafting dates between April 5 and 9, are in Washington National Records Center, ICA Director's Files, FRC 61 A 32, Box 316, Latin America.

102. Memorandum From the Director of the Executive Secretariat (Howe) to the Under Secretary of State (Hoover)[1]

Washington, March 26, 1957.

3:00 p.m. Appointment with Senator Smathers

Attached at Tab A is a briefing memorandum from Mr. Rubottom, with which Mr. Barnes concurs, for your meeting with Senator Smathers at 3:00 p.m. today.

At Tab B is a memorandum from E—Mr. Robinson raising certain questions in connection with Mr. Rubottom's memorandum. Mr. Murphy considers that Mr. Robinson's points are well-founded and suggests that, since lack of time prevents reconciliation of the outstanding differences, you take note of both points of view.

Fisher Howe

[Tab A]

Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Under Secretary of State (Hoover)[2]

SUBJECT

Meeting with Senator Smathers March 26, 3:00 p.m.

United States economic policy toward Latin America is based on cooperative effort by the countries involved and ourselves to establish self-reliant economies which will afford individual citizens a steadily improving standard of living and, consequently, greater dignity and enhanced opportunity to participate in a democratic form of government. Senator Smathers undoubtedly would agree with this policy. The disagreement with him arises over the means of achieving the above objectives.

The Administration believes, and this policy has been really in effect under the administrations of both parties, that these objectives can best be obtained by adhering strictly to the private enterprise line, with exceptions recognized in certain key economic areas, and in relying to the greatest extent possible on trade, domestic and foreign private investment, and loans. This line can be defended, in

[1] Source: Department of State, Central Files, 720.5–MSP/3–2657. Confidential.
[2] Confidential.

our opinion, when one recognizes the favorable position held by Latin America in its access to the U.S. market.

There is a gap which has not yet been filled by trade, investment and loans. Part of this gap, and this applies especially to the public sectors like health and education and extending also into agriculture and other fields, is being filled by our technical cooperation program. Still another gap, acknowledging that there are bona fide emergencies that do arise in an area as big as Latin America, is being filled by grant aid where such crises exist—Bolivia, Guatemala and Haiti. Senator Smathers argues that there is yet another gap which he desires to fill in with funds from this program, gaps which cannot be filled by private investment or even loans.

I believe that we are now affording one-third of the countries, seven so far, with the assistance that he has in mind under PL–480 loans and there may be possibility of extending this type assistance to others. We might also reexamine Export-Import Bank loan policies to help in some of the fields he has in mind. Certainly World Bank loans might be feasible, if the countries would energetically seek them.

We can encourage and actively work toward a more liberal loan policy in line with the above, and we should redouble our efforts to encourage responsible, honest and efficient government administration in Latin America. No type of aid, Smathers Funds or otherwise, can offset such maladministration and malfeasance as has occurred recently in Haiti, Honduras and Ecuador.

Recommendation

On balance, I recommend that you tell Senator Smathers that (1) we are very sympathetic with the objectives he has in mind, (2) we intend to redouble our efforts to assist Latin America in the ways which will count most and which, in some cases, do not involve funds of any kind, (3) in the present climate, to recommend additional dollar assistance is simply not in accordance with the Administration's view, and (4) if the Congress in its wisdom decides to vote the funds anyway, we shall see that they are spent wisely.

[Tab B]

Memorandum From the Special Assistant in the Office of the Deputy Under Secretary of State for Economic Affairs (Robinson) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[3]

SUBJECT

Meeting with Senator Smathers

Unfortunately time has not permitted us to give your memorandum to the Under Secretary the thorough staff review which we should have liked. However, the following comments may be useful to you:

(1) We seriously question the advisability of suggesting to Senator Smathers that Eximbank loan policies should be "more liberal." Accordingly, we suggest that the material on this point toward the bottom of page 1 be deleted.

(2) Although we have no specific objection to Recommendation No. (2), we don't quite know what it means and would, therefore, raise a question with respect to it.

(3) We suggest the insertion in Recommendation No. (3), after the words "dollar assistance", of the following: "specifically earmarked for Latin America." The purpose of this addition is to avoid prejudicing the Government's decision regarding a development fund which would be world-wide in scope (including Latin America).

HR

[3] Confidential.

103. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, May 7, 1957.

SUBJECT

Proposal to Establish Flexible Import Taxes on Lead, Zinc, and Fluorspar

Background:

At the request of the White House, Assistant Secretary of Interior Seaton met with Secretary Humphrey, Secretary Weeks, Under Secretary Dillon, and others, on Monday to try to reach agreement on a long range minerals policy which the Administration can support. Proposals scheduled for Cabinet discussion on Friday include a flexible import tax on lead, zinc and fluorspar.

A proposal for an increase in taxes on lead and zinc was turned down by the Administration in 1954 and a stockpile program instituted instead because of the serious foreign policy implications of an increase in duties. The effect of such action on our relations with Latin America would be even more damaging today than in 1954 for the following reasons:

1. An important Inter-American Economic Conference is scheduled for Buenos Aires in August. The U.S. will be pressed to offer economic development assistance to this area comparable to that given in other areas of the world. Imposition of taxes on products of such importance in our trade with Latin America would undermine our argument that grant aid is not required because of the ready access which these countries have to the U.S. market.

2. The proposal runs directly counter to the broad policies of the Administration regarding reduction of duties, fostering of competition, and expansion of international trade which will also be under discussion at Buenos Aires. We have urged these policies upon the Latin American countries with some success. A departure from them will endanger our position of leadership in the commercial policy field and our ability to protect the interests of U.S. exporters in the rapidly growing Latin American market.

3. Our cotton export policy has been widely criticized in Latin America and has already resulted in strain on our relations with

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Economic. Confidential. Drafted by Mulliken. A covering note from Rubottom to Kalijarvi, May 8, 1957, reads as follows: "We in ARA will be glad to mark this for clearances by you and any other offices of the Department, or we can send separate memoranda to the Secretary. But in the interest of speed I am forwarding [it] to you as is."

Mexico and Peru. An increase in the duties on lead and zinc would be a serious blow to the economies of the same two countries. U.S. imports of lead and zinc from Mexico in 1956 were valued at $48.6 million. Imports from Peru amounted to $41.4 million. Fluorspar is also important to Mexico and provided dollar exchange of almost $6 million in 1956. Cotton and minerals are the two most important exports of both countries and imposition of new duties on metals, in combination with lower prices for cotton over the past year, will undoubtedly have serious repercussions on our relations with both countries.

I understand that a briefing has been prepared in E regarding the objections to the proposal from an economic standpoint. In this instance the objections from the political standpoint are, I believe, of equal or greater importance.

Recommendation:[2]

That you oppose the restrictive import features of the Department of Interior's recommendations as inconsistent with our foreign economic policy, and offer the Department's assistance in any review of the program.

If this item has been removed from the Cabinet agenda for Friday, as a result of the Monday meeting, that you take the matter up directly with the President.

[2] There is no indication on the source text of action by the Secretary on this recommendation.

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104. Letter From the Under Secretary of the Treasury (Burgess) to Milton S. Eisenhower[1]

Washington, June 4, 1957.

DEAR DR. EISENHOWER: Your letter of the 9th of May[2] encourages me to further reflections on the vital question of encouraging continued investment in Latin America. Your emphasis on the need of relying strongly on private investment, and on creating a favor-

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Eisenhower, Dr. Milton.

[2] Not found in Department of State or Department of the Treasury files.

able atmosphere for such investment are of course in accord with my own line of approach.

There are some basic economic considerations which, I believe, we must keep in mind. Investment in many countries of Latin America is already proceeding at an almost unprecedented rate. While mindful of the cautions on the use of such statistics, it is interesting to note that the average annual increase in the real Gross National Product of Latin America, as a whole, is estimated by ECLA at 4.3 percent for the four years 1953–1956. The comparable figure for the United States is 3.1 percent. In several of the Latin American countries, such as Brazil, Mexico and Venezuela, growth rates have, of course, been considerably higher than the regional average.

In countries where investment is already proceeding rapidly, it is difficult to increase the rate of investment without either encouraging inflation or placing an undue burden on foreign exchange resources, loan repayment capacity, and management. This is especially true of investments requiring a large local component of labor or materials, such as housing, which do not produce exports or save imports. If such investments are financed locally in an economy already strained by other development activity, inflation is likely to occur. Inflation and inadequate management are Latin America's greatest economic enemies.

Alternatively, if financing is supplied from abroad, an unduly heavy charge may be placed on the country's foreign exchange availabilities in future years, which interferes with borrowing for higher priority needs.

We are all on the receiving end of the comparison between U.S. Government assistance and lending activities in Latin America and other parts of the world that many Latin Americans are fond of making. It seems to me that one of the effective counter-arguments to this—often overlooked—is the fact that the contribution of United States private foreign investment has been much greater in Latin America than in the underdeveloped regions of the Eastern Hemisphere.

In this connection, I believe you will find of interest the attached tables comparing United States private and public capital flows and the American private investment position in Latin America with the rest of the world, outside of Europe and Canada. Particularly noteworthy is last year's trend showing an increase over 1955 in net private capital investment to Latin America exceeding the increase in U.S. Government grants and loans to the other underdeveloped regions.

The role of U.S. foreign capital has been invaluable to Latin American development. The analysis of recent American investment

in Latin America, given in the January 1957 issue of the *Survey of Current Business,* give some impressive facts. Among other things, it reports that in 1935, U.S. companies operating in Latin America produced almost $5 billion of goods and services, provided a net direct foreign exchange return of over $1 billion and accounted for 30 percent of all Latin American exports.

I believe Latin American countries should be proud of their record of financing economic development by private foreign investment and dollar loans rather than through grants or loans repayable in local currency. The shift in emphasis from grants to loans in the proposed foreign aid legislation on the whole suggests a tendency to move U.S. foreign assistance to other underdeveloped areas in the future somewhat closer to the approach which has been used toward Latin America.

Rapid amortization as an incentive for stimulating new investment abroad is bound to have its advocates, just as there are some who support it to promote investment in this country. As you know, we have opposed the continued use of this device in the defense program, except in the case of very restricted types of construction and equipment occupying the highest military priority. Among the basic difficulties with accelerated amortization is that it tends to distort the investment pattern from one governed by the economic marketplace to one governed largely by the tax benefits involved, and it tends to destroy the balance of competitive relationships. Opposing it for domestic investment, we would find it difficult to support it for foreign investment. I don't think the Congress could approve it.

A more useful device, it seems to us, is to give recognition to such foreign tax incentives as exemption or reduction for new investment, by allowing a credit against U.S. tax liability for the amount of taxes given up by a foreign country. This we propose to do by entering into conventions with other countries which will at the same time remove various tax and related obstacles to the flow of trade and investment.

We have been negotiating treaties with three countries containing such a credit for "taxes spared," and it is our hope that one will be signed in the next few weeks and sent to the Senate for consent to ratification.

I submit these additional thoughts for your consideration.

Sincerely yours,

W. Randolph Burgess

[Enclosure]

Table I

Net United States Capital Outflow and Government Economic Grants in 1956[P]
(millions of dollars)

	Latin America	Rest of the World, Except Canada and Europe[4]
Private Capital[5]	718	342
Government Loan Capital	92	438
Government Economic Grants	75	1,024[6]
TOTAL	885	1,804

Source: U.S. Balance of Payments for 1956

Table II

Increase in Net United States Capital Outflow and Government Economic Grants in 1956 over 1955[P]
(millions of dollars)

	Latin America	Rest of the World, Except Canada and Europe[4]
Private Capital[4]	389	39
Government Loan Capital	39	217
Government Economic Grants	7	115[6]
TOTAL	435	371

Source: U.S. Balance of Payments for 1956

Table III

Value of Total U.S. Public and Private Investments Abroad in 1955[P]
(millions of dollars)

	Latin America	Rest of the World, Except Canada and Western Europe[4]
Private	8,224	3,590
Public	1,013	1,499
TOTAL	9,237	5,089

Source: Department of Commerce

[P] Preliminary. [Note in the source text.]
[4] Excluding dependencies of Western Europe. [Footnote in the source text.]
[5] Exclusive of reinvested earnings. [Footnote in the source text.]
[6] Including large amounts of "Defense Support" aid to South Korea, Formosa and Viet Nam. [Footnote in the source text.]

105. Letter From the Secretary of State to Senator Dennis Chavez[1]

Washington, July 15, 1957.

DEAR SENATOR CHAVEZ: Reference is made to your letter of May 29, 1957 and the Department's acknowledgment of June 3, 1957[2] concerning S. 2157, "To authorize appropriation of an additional sum required for completion of the Inter-American Highway".

The considerations which the President pointed out in his letter to the Vice President and the Speaker of the House on April 1, 1955 are still very pertinent and are repeated herewith: (1) a completed highway will provide a very important contribution to the economic development of the countries through which it passes; (2) there will be an opportunity for increased trade and improved political relations between these countries and the United States; (3) the resultant increase in tourist traffic will not only be important to cultural relations but also serve as a very important element in the development of their economies through earnings of foreign exchange; and (4) the existence of such an all-weather highway would be of substantial security importance both in providing overland contact and communications as far southward as the Panama Canal and in providing an important physical link in these countries' common defense of the Western Hemisphere against aggression without and foreign subversion within.

The completion of this important project is one of the most significant actions which this Government can take toward the American Republics in the foreseeable years. The completion of the Inter-American Highway has long been a clearly established objective of United States policy. For many years the United States, together with its Central American neighbors, has been cooperating in the construction of this Highway. There is no question about the United States policy with regard to the Highway. We are publicly committed to aid in its early completion.

In 1955 the United States made a commitment to attempt to complete this highway within three years. Since the estimates were made at that time a certain rise in cost has developed for two reasons: (a) the lack of detailed field data on that section of the highway in southern Costa Rica and northern Nicaragua; and (b) the rise of new construction costs since 1955, which are roughly 16 percent. It is important from the viewpoint of the United States

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[1] Source: Department of State, Central Files, 810.2612/5–2957. Drafted by Gerald W. Russell of REA.

[2] Neither printed; both *ibid.*, Central File 810.2612.

foreign relations in that area that we continue the accelerated construction of this highway. In view of the fact that the former estimate for the amount of funds necessary to complete this highway was made several years ago, the increased cost of labor and material, as noted above, together with the domestic highway legislation which will make the bidding on the construction projects in this area less attractive, it is quite clear that the original estimate will not be sufficient to complete this highway, and the additional $10,000,000 appropriation will be required.

The Department of State urgently recommends the prompt enactment of the proposed legislation in order that the uninterrupted construction of this highway may continue to its final completion.

The Department has been informed by the Bureau of the Budget that there is no objection to the submission of this report.

Sincerely yours,

For the Secretary of State:

John S. Hoghland II[3]
Acting Assistant Secretary
for Congressional Relations

[3] Printed from a copy which bears this typed signature.

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106. Memorandum From Albert Post of the Office of Inter-American Regional Economic Affairs to the Director of the Office (Turkel)[1]

Washington, October 17, 1957.

SUBJECT

Financial Status of Latin American Countries

Argentina: Drew $75 million, one-half of quota, from IMF in April 1957. Gold and dollar reserves continue to decline, falling to less than $200 million, lowest level since the end of the war with losses of $50 million in 1955, $132 million in 1956, and $97 million for the first seven months of 1957. It appears that further losses of reserves are inevitable. In Paris Club currencies there was a $6.6 million negative balance at the end of July. Cost of living and

[1] Source: Department of State, Central Files, 820.10/10–1757. Official Use Only.

monetary expansion continues at more than 20% per annum. Understood that feelers have been put to the IMF for further drawings. Clear that unless Government is willing to enforce austerity program involving credit restrictions, balance in fiscal accounts, effective exchange policy, and more favorable attitude to foreign investments that international payments crisis may be expected within a year or so.

Bolivia: A stabilization agreement with the IMF, ICA, and U.S. Treasury (supported by $7.5, $10, and $7.5 million respectively) was initiated November 1956 to cope with a runaway inflation. In addition, ICA gave $10 million of grant aid and about $7 million PL 480 aid. For FY 1958 ICA grant aid of $17–19 million is envisaged. To-date Bolivia has drawn $8 million from the $25 million stabilization fund. International reserves are $3 million. Progress in achieving financial stability has been rather good, with price level below pre-stabilization levels and boliviano at 8,700 (September 19) compared with 12,000 (December 1956) per dollar. Basic problem appears to be whether stabilization can be maintained at same time some expansion is necessary to increase capacity to earn foreign exchange. This requires limited investment in strategic sectors in order not to upset financial stability and requires additional external aid. Possibilities of import substitution should also be explored. U.S. programs aimed at general "improvements" which do not keep these fundamental factors in mind will most probably fail to solve basic problem.

Brazil: U.S. dollar reserves were $174 million in September 1956 and fell minus $20 million on September 2, 1957. Unpledged gold holdings are $118.7 million but are subject to IBRD waiver before they can be negotiated. Continued inflation for a number of years (at about 20% per annum) and decreased coffee exports in price and volume have now (October 4) forced Brazil to obtain a $37.5 million drawing from the IMF (to 50% of quota). Fiscal deficit for 1957 of about $30 billion ($400 million) is expected and credit expansion based on deficit financing continues unabated. Both IBRD and Eximbank have refused to consider additional development loans until inflation is contained. Petroleum imports alone require over $275 million annually of $1.2 million total import bill. Forecasts for earnings from coffee exports (60–70% of total) are generally pessimistic. It is expected that international reserves will be so low by spring of 1958 that additional external finances will be sought.

Chile: In 1955 with technical advice of a Klein & Saks Mission a full stabilization program was begun, supported by a stabilization fund of $75 million ($35 million IMF, $25 million U.S. Treasury, and $15 million New York private banks). A fair degree of success was achieved in stabilization efforts in 1956 (cost-of-living increased by 56% compared with 75% in 1955) and the exchange system was

freed of most controls. In 1957, however, the stabilization effort has faltered and is marked by a huge budgetary deficit (30 billion pesos), a rapid expansion of credit, and an undiminished rate of price increase. In part, the drop in the price of copper (from a planning figure of 35 cents to 26 cents) was an important factor in failure to balance the Government's accounts. Gold and dollar reserves, which were $62.3 million at the end of 1956, declined to $54.3 million on September 15, but it should be pointed out that Chile also borrowed $17.5 million of short-term funds during this time and also received PL 480 assistance. Present indications are that the stabilization program will fail unless drastic measures are taken to curtail credit and budgetary deficits which the Central Bank and governments appear unwilling to do. Despite the availability of $12.5 million from the Eximbank not yet unconsummated loan, it is clear that Chile will require substantial foreign financing in 1958 if commercial arrears are not to appear even should copper go up a few cents.

Colombia: Despite high export receipts in 1955 and fairly good earnings in 1956, an internal expansion based on over-investment and over-consumption led to the accumulation of about $450 million of arrears to foreign creditors. Just prior to the fall of the Rojas Government in May 1957, negotiations were opened for settlement of these arrears. Negotiations have now been concluded except for a rather small amount owed to non-U.S. creditors. In essence, the settlements involved the use of Colombian reserves, borrowing from the Eximbank and New York banks ($87 million), and 30 month payment terms on the remainder. A $25 million standby also was arranged with the IMF and a program of austerity announced. However, the latter program appears to be faring badly: the budget will show a deficit of 300–400 million pesos for 1957; credit restrictions have not been adequate; and imports are running over $40 million against a target of $23 million monthly. In addition, coffee prices have fallen to the lowest levels since 1950. Only a reversal of internal financial and fiscal policy and a renegotiation of the arrears settlements will permit Colombia to go through 1958 without further loans from abroad or the creation of new arrears.

Costa Rica: In 1956 there was a 20% decline in export earnings (loss of bananas from floods and blowdowns, low cacao prices, and small sugar crop) while imports rose by 10%. The result was a trade deficit of $27.6 million and a loss of $8.9 million in reserves, which fell by year-end to $14.5 million, lowest level since 1951. Capital inflow from banana companies, IBRD, Eximbank, and for the Inter-American Highway forestalled a larger decrease in reserves. During 1956 internal financial stability was maintained despite 11% increase in bank loans. For 1957 the outlook appears bright with replenishment of reserves to $23 million on June 30, 1957, compared with

$22.6 million for the same date of previous year and seasonal decline in reserves has thus far been normal. Exports appear to be moving well and financial policy has been conservative. A notable feature of Figueres regime has been rather heavy state investment in traditionally private enterprise fields.

Cuba: Economic activity is at record levels especially owing to an excellent sugar crop sold at very remunerative prices and a program of high public investment. However, a substantial part of public investment has been financed through an increase in debt which increased from $270 million in 1953 to $704 million on June 30, 1957. In addition, Government borrowing from the Central Bank and private banks has increased rather excessively during 1957. On the other hand, capital inflow and a moderate financial policy have compensated for the expansionary effects of the Government's public works program. International reserves, which fell to $479 million at the end of 1956 increased to $547 million on July 31, 1957, as sugar was exported at bonanza prices. While reserves should decline to about $485 million by the end of the year, they are very ample for some $650 million of imports. The outlook in the face of lower sugar prices is for a reduction in exchange reserves during 1958 which could be partially compensated for by a lower rate of public investment.

Dominican Republic: With high sugar export earnings, it is expected that foreign exchange receipts will in 1957 top those for the record year 1956 by a considerable margin, despite lower coffee prices. With imports fairly stable, gold and U.S. dollar reserves increased from $49 million at the end of 1956 to $63.6 million at the end of July 1957, historically the largest holdings. Economic activity appears to be at record high levels. Prices have remained stable for a number of years and monetary policy has been able to maintain a constant money supply. However, over 50% of the financial resources of the country are preempted by official agencies indicating that statism is a basic factor of economic organization.

Ecuador: As a result of heavy expenditures by the previous government, by the middle of 1956 a budgetary crisis was faced by the incoming Ponce Administration. Rather strong measures including new taxes, expenditure reductions, and the consolidation of floating debt, were effective in dealing with the problem. Since April there has been a 60% expansion in Central Bank credit to the public and money supply to close to the December 1956 record levels. With demand for imports high, increased liquidity poses problems for the maintenance of international reserves at adequate levels. Such reserves were $23 million on August 31 compared with $21.3 million for same date last year after reaching high of $27.6 million on January 31. An IMF drawing of $5 million (50% of quota) was made

in June and is to be repaid by the end of this year. Taking into account this drawing, reserves would have been $18 million on August 31, well below last year's. It is important for a close rein to be held on internal monetary expansion so that the seasonal increase in reserves will be sufficient to meet next year's exchange needs.

El Salvador: With excellent coffee and cotton crops and exports at high levels, gold and dollar reserves climbed to $68.5 million on July 31, 1957, a record. The seasonal decline for the second half of 1957 will probably reduce such reserves to about $50 million, about equal to six months' imports. Internal financial stability has been maintained. With coffee amounting to over 70% of exports, earnings are vulnerable to undue fluctuations, but reserves should be adequate to deal with losses of foreign income from lower coffee prices, and despite present slow export sales of coffee.

Guatemala: Although receiving U.S. Grant Aid of $15 million in FY 1957 and an expected $10 million in FY 1958, official gold and dollar reserves rose to $83.9 million by April 30, 1957, the highest on record. Since then a seasonal decline has reduced them to $75.2 million, well above the previous year; this is equal to about seven months' imports. The latter have increased to such a degree that exports since 1956 are not earning enough to cover import costs, which were financed by increasing foreign debt and by external aid. The high rate of public and private investment was the basic factor in the strong import demand. Money supply has not increased excessively and the Government appears to be financing its deficits from domestic savings and Grant Aid, the latter being a windfall to the economy.

Haiti: As a result of Hurricane Hazel in 1954, a sharply reduced coffee crop, and repeated changes in governments, there was a $10 million balance of payments deficit in FY 1957 ending September 30, 1957. This deficit was financed by reducing dollar reserves, defaulting on foreign debt, ICA Special Assistance, and drawing on private bank balances abroad. The following reduction in incomes had the effect of lowering import demand and so easing the burden on the balance of payments. Despite continued political turmoil, it is hoped that a good coffee crop beginning October will replenish reserves and make possible servicing of foreign debt. A $1 million drawing ($7.5 million is quota) from the IMF is now being made. In addition, $1 million of ICA Special Assistance from FY 1957 is being withheld until satisfactory measures are taken by the Haitian Government in the Talamus case. In view of deleted [*depleted*] reserves, Haiti will probably require the $2 million grant assistance allotted from FY 1958 funds. Once the new Government is in power, the IMF will enter into a stabilization agreement, which is being adhered to by

the National Bank on an informal basis, supported by additional funds beyond the $1 million.

Honduras: Despite heavy cash requirements, which resulted in substantial budgetary deficits, the Central Bank and commercial banks have maintained conservative policies directed toward internal financial stability. With foreign and internal debt at low levels, there is some room for expansion of borrowing for development purposes. However, the outlook for the balance of payments is not bright owing to the secular decline in the banana industry. Gold and dollar reserves are adequate at $22.9 million (May 1957), although somewhat lower than holdings in 1953 and 1954. In February, 1957, a drawing of $2.5 million was made from the IMF to cover a seasonal decline in reserves and was repaid in August. It is expected that lower foreign earnings, especially because of reduced tax and investment receipts from the banana companies, will create further pressure on reserves. The Embassy reports that a request is being made of the IMF for a $7.5 stabilization agreement which has not yet been confirmed here. A development program for road and electric power construction has received the general approval of the IBRD subject to satisfactory financing of local currency costs. Total requirements in local currency are estimated at about $20 million for the period, 1958–61. How much of this amount could be obtained from internal non-inflationary sources has not been fully explored.

Mexico: As a result of high level exports, record tourism receipts, and sharp industrial expansion by the end of 1956, Mexico had accumulated official gold and dollar reserves of $471 million, an increase of $260 million for the years 1955 and 1956. Thus far in 1957 there has been a reversal and the loss of reserves was $410 million by August. This loss of reserves was mainly the result of lower exports and higher imports despite somewhat increased earnings from tourism. With lower prices in view for minerals and coffee, it is unlikely that reserves will be rebuilt to 1956 year-end levels in the near future. However, reserves are fairly substantial when one considers that they are equivalent to more than six months current imports. On July 1 the Bank of Mexico relaxed reserve requirements on private banks, a measure which was of doubtful value at a time when the international payments outlook had become less promising. Mexican official estimates expect a moderate decline in reserves over the next year.

Nicaragua: During 1956 and 1957 there were shortfalls in the basic export crops, coffee and cotton, so that international reserves declined to such an extent that in November 1956 a standby of $3.75 million was arranged with the IMF. Only one half of this amount was actually utilized and repurchase was made early in 1957. However, further deterioration has occurred since that date. While

normally reserves are accumulated in the first half of the year during the export season, they are run down during the remainder of the year falling to lows by December. By the end of 1956 such reserves were down to $8.5 million, the lowest amount since 1950, and were expected to fall to about zero at the end of 1957. To cover the next six months payments' requirements, therefore, in October an IMF standby agreement was negotiated permitting drawings up to the full quota of $7.5 million. While undoubtedly repurchase of any dollars used can be made from export proceeds during the first half of 1958, it appears fairly certain that another standby will be needed for next year. A U.S. Treasury exchange agreement to a maximum of $5 million is now being finalized which will provide window-dressing behind the IMF agreement. The IMF is giving advice on the fiscal and financial measures necessary to restrain import demand since imports have continued at rather excessive levels despite the fall in exchange earnings. At the same time the Government plans to expand coffee production and has entered into informal discussions with the IBRD for a $1.5 million loan for pesticides and fertilizers.

Panama: In post-war years imports have exceeded exports by about $40 to $50 million annually with accounts being balanced by transactions with the Canal Zone. In this way equilibrium has been maintained although gold and dollar reserves have recently declined $39.2 million, the lowest level in the past few years, but still close to their maximums. Efforts are being made to diversify exports to reduce the heavy reliance on banana exports. Imports during 1957 have run well above 1956 levels, the increase being about equal to the loss in reserves. The cost-of-living has been virtually unchanged since 1951. Unless there is a sharp decline in receipts from the Canal Zone, the financial situation should continue favorable.

Paraguay: In March, 1956, a limited stabilization effort was made under technical advice from the IMF. In September, 1957, a more fully developed program was put into effect supported by $5.5 million from the IMF and a $5.5 million exchange agreement with the U.S. Treasury since Paraguay's international reserves were negligible and support was required to permit an orderly market for the newly unified fluctuating rate of the guarani. The stabilization agreement also fixed ceilings on credit and Government borrowing, and established additional sources of revenue. Despite these measures, drawings of $3.5 million had to be made against the IMF account, of which over $2 million was to pay commercial arrears. The IMF is unhappy over the situation and is reviewing the whole program. On November 1, Paraguay must pay a $589,000 installment (of which $329,000 is U.S. dollars) on a $5 million IBRD loan. It is feared that no funds will be available for such a payment unless the IMF agrees to make further releases and agrees to utilization for this

purpose which the IMF Staff holds is contrary to the terms of the Stabilization Agreement. On the other hand, the IBRD has expressed an unwillingness to extend the repayment terms.

Peru: In 1956 economic activity was at record levels, foreign investment high, and with the demand for exports strong, foreign exchange reserves rose by $15 million to $41.7 million by year end. Gold holdings continued at $35 million. However, there was a substantial fiscal deficit financed by the Central Bank. Recent months have shown a sharp drop in export income while fiscal deficits and private credit expansion have been heavy. Money supply continues to increase at the rate of 20 percent per annum despite losses of foreign reserves, which fell to $15 million in September. The Government took ineffectual measures late in 1956 to control credit expansion, and in March 1957 rather high marginal reserve requirements were imposed on private banks, but since penalties for failure to meet reserve requirements are negligible there was only a minor slacking in the rate of monetary expansion. Exchange rate policy has been directed toward defense of the rate. Without a strong effort to dampen down the internal expansion to conform with anticipated exchange income, it may be expected that foreign exchange reserves will continue to decline and external resources may be needed.

Uruguay: The volume of foreign trade has not increased notably during the post-war period. Since there is a large passive trade balance with the U.S. and other currencies earned are not convertible into U.S. dollars, there is normally pressure on gold and convertible currency reserves. The multiple rate structure aimed at income distribution, resource allocation, export promotion, and import restriction is now being considered by the IMF and it is expected that an unfavorable decision will be requested of the Executive Directors. Despite gradual depreciation of the peso, internal inflation and the ineffectual policies have caused a decline in new gold and foreign exchange to $88.4 million on July 31, the lowest since World War II; in 1956 alone losses were $63 million. Recent efforts to obtain financial assistance in the U.S. have been unsuccessful. Budgetary deficits have contributed to inflationary pressures. The wool export season is to commence in October and indications are that some devaluation will be necessary to move stocks, which has serious implications for any move to eliminate or reduce the countervailing duty imposed by the U.S. Treasury on wool tops.

Venezuela: With official gold and U.S. dollar reserves at $1.3 billion, Venezuela holds about 50 percent of all the international reserves of Latin America. Expansion of petroleum imports as a result of the Suez Crisis and the sale of new concessions have caused a substantial gain in foreign earnings. Petroleum production is now

expected to decline moderately in face current oversupply conditions and U.S. import restrictions. The effect, however, on the huge international reserves is expected to be minor. Some efforts at the creation of domestic industry are officially supported by tariff measures. The cost-of-living has been stable and monetary expansion is largely the result of the positive balance of payments.

Table I

EXTERNAL FINANCIAL REQUIREMENTS FOR LATIN AMERICA FOR 1958[2]

Probably Will Require B/P Aid	*May Require B/P Aid*	*Probably Will Not Require B/P Aid*
Argentina	Ecuador	Costa Rica
Bolivia	El Salvador	Cuba
Brazil	Uruguay	Dominican Republic
Chile		Guatemala
Colombia		Mexico
Haiti		Panama
Honduras		
Nicaragua		
Paraguay		
Peru		

[2] Assumes continuation of present policies by Government and monetary authorities. [Footnote in the source text.]

Table II

INTERNATIONAL MONETARY FUND

Latin-American Quotas, Drawings, and Stand-By Arrangements
(millions of dollars)

Country	*Quota*	*Drawing*	*Available Stand-By*
[3]Argentina	150	75	—
[3]Bolivia	10	6.5	3.5
[3]Brazil	150	75	—
[3]Chile	50	24.8	22.5
[3]Colombia	50	25	25
Costa Rica	5	—	—
Cuba	50	—	—
Dominican Republic	10	—	—
[3]Ecuador	10	5	—
El Salvador	2.5	—	—
Guatemala	5	—	—
Haiti	7.5	1	—
Honduras	7.5	—	—
Mexico	90	—	—
Nicaragua	7.5	—	7.5
Panama	.5	—	—
[3]Paraguay	7.5	5	2.5
Peru	25	—	12.5
Uruguay	15	—	—

[3] Drawings at 50 percent of quota or above. [Footnote in the source text.]

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107. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to Milton S. Eisenhower[1]

Washington, December 13, 1957.

DEAR MILTON: Following up our telephone conversation of a few days ago I would like to express a few thoughts in reply to your very good letter of November 25.[2] You were certainly kind to

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Eisenhower, Dr. Milton.

[2] Not printed. (*Ibid.*)

comment on my performance "within established policy lines", and I only hope that I continue to deserve your confidence.

First, I would like to comment on your statement that our relations in Latin America are degenerating due to the feeling in that area that their countries are being neglected in comparison to the treatment we are according countries in other regions of the world. Certainly it is true that, ever since the days of the Marshall Plan, that feeling has existed in Latin America either openly expressed or latent, however invalid and unreasonable it may have been. Your trip in 1953, and the report following it, helped greatly to overcome this problem and to point out the extent to which Latin America itself had profited from the Marshall Plan. I doubt that the feeling now is any more serious than it has been during the past decade.

However, there have been two other "plans" or "funds", which have been publicized in the past two or three years which have fed additional fuel to the Latin American fires. One was the Asian Development Fund coupled with the Asian Nuclear Center announced for Manila. Both of them failed of meaningful implementation, and, I believe, the second was largely countered by your very successful efforts in leading our Latin American friends last year to agree to the recommendation to their presidents that there be established an Inter-American Nuclear Energy Commission. In the past three years, we have also helped many of the Latin American countries in the nuclear field on a bilateral basis to an extent at least equal to that we have other countries, so their original pique on that score has probably subsided.

Then there was the special fund for the Near East which was debated in and finally passed at the last session of Congress. This did not help our relations with Latin America, yet the problems in the Middle East were so acute and so immediate that there was a reluctant acceptance of the need of the leader in the free world to do something dramatic about it. I only wish that the results could have been more successful.

The most valid grievance, and certainly they have been articulate about it, which Latin America has had in recent months has been (1) the drop in the world market prices of their exportable commodities, and (2) the threat to impose increased tariffs on lead and zinc by the United States, and now possibly tuna and other products. You observed at first hand in Mexico the serious damage that both of the above items have done there, with United States-Mexican relations suffering probably more than the Mexican economy has. The same has been true in Peru, only more so.

With respect to (1) above, there is little that we can do except to hope that the indications hold up that the low point has been reached in metals prices and that coffee does not slump too badly,

although, of course, we can and are giving prompt attention to Latin American requests for assistance to offset their reduced income from sales abroad as will be explained further below. As for (2), our relations with Latin America will suffer a body blow if the lead and zinc tariffs go through. A few constructive suggestions have been put forward at the Tariff Commission hearings. For example, one would increase the differential between the tariff on slab metal and that on ores and concentrates. It is too early to prophesy the outcome of the hearings but we shall hope for the best.

The picture is not entirely black, however. We are re-doubling our effort to help the Latin American countries on an individual basis when urgent requests are made of us, as is now the case more and more frequently. Today we are trying to rush through a considerably increased Title II or III grant food aid program for Colombia and Chile, in addition to all of the other things that we are doing in those countries. We are scrutinizing all pending applications in an urgent effort to steer Paraguay and Honduras into proper channels for early approval of Development Loan Fund projects. Now that the Constituent Assembly hurdle has been passed, we are actively searching for some additional means of helping Argentina, although that country probably will not get into high gear until after the presidential election in February and the inauguration in May of next year.

We have been able to use P.L. 480 effectively but the limited appropriation available this fiscal year has hurt us badly in Latin America. Argentina asked for 25 million dollars worth of cotton, then finally agreed to consider 10 million dollars worth. Try as we could, we could only offer 5 million dollars of cotton which the Argentines turned down, stating quite candidly that they did not wish to give up their right to rail against P.L. 480 (which does hurt their wheat market) for a piddling 5 million dollars. Colombia is seeking approximately 30 million dollars of P.L 480 products and will be lucky to get 10 or 12 maybe, which will *not* include the products of main interest to them. Paraguay requested 15 million this year under P.L. 480, finally asked for 5 million after we had argued them down and will probably obtain 3 million.

Of course, P.L. 480 was designed primarily to dispose of U.S. surpluses in such manner as to build up future markets for us. Altruistically, we also wanted to make food and fiber available in places where there was dire shortage. As it has turned out, many countries have sought P.L. 480 goods primarily to ease the drain on dollar exchange since payment may be made in local currencies, and secondarily to obtain the benefit of long-term loans of the sales proceeds. The above being the case, and have savored P.L. 480 in previous years, the small amounts now available earn us little kudos.

Your plan to use P.L. 480 proceeds, say from sales in Europe, to purchase goods needed in Latin America on initial consideration sounds reasonable. There are, however, practical objections to such so-called "triangular" deals. Wherever such a sale has displaced a normal seller in a market, he has cried to high heaven. The same cry has been heard from American businessmen adversely affected by such sales. Of course, an across-the-board program such as you suggested might offer compensations to European sellers since a loss in one market presumably might be made up in another market, although a few countries might be favored. The eventually objectionable feature however is that it encourages bilateralism, with all the consequences of discrimination and non-competitive practices implant therein.

The Pella Plan as you know envisages economic aid from the Marshall Plan countries to Asia and Africa out of the repayments due to the United States from loans (which is more favorable to Italy than most countries since Italy received more grant aid and less loans than others). There are similar rumblings elsewhere: I note that the Stevenson Plan this morning proposes the NATO countries as such offer aid to "underdeveloped areas". This is intended also to exclude Latin America. I feel strongly that any such plan which excludes Latin America would bring a storm of protest much louder than anything we have heard and I am actively opposed to it. On the other hand, to join such a plan which would include Latin America would make a mockery out of our refusal to support an inter-American development fund or bank. Thus, you can see some of the dilemmas which we face.

I sincerely hope that we can get together soon to discuss some of these matters.

Billy and I are grateful for the President's rapid recovery and feel that the prayers of the entire country, indeed the whole world, have been answered.

Very sincerely yours,

R. R. Rubottom, Jr.[3]

[3] Printed from a copy which bears this typed signature.

108. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary of State for Economic Affairs (Dillon)[1]

Washington, December 20, 1957.

SUBJECT

Policy of Development Loan Fund Towards Latin America

Problem:

Senator Smathers and other Congressional representatives have manifested increasing interest in the extent to which the Development Loan Fund is currently contemplating extension of loans for Latin American projects. At the same time, there are indications that within the Executive Branch, officers concerned with DLF operations may consider only Bolivia, Honduras, Paraguay and Haiti in Latin America eligible for access to the Fund and discourage other countries from submitting proposals to it. As a corollary to this attitude there appears to be a disposition arbitrarily to define a "sound economic project" in these countries only as one which can obtain financing from conventional institutions.

Recommendations:

(1) To assure adequate recourse by Latin America generally to capital of the DLF, 10 percent of the latter's funds administratively should be earmarked for projects there.

(2) Of such informally earmarked funds, approximately 20 percent should be reserved for projects in the fields of education, health, sanitation and resettlement as contemplated in the Smathers Amendment (Section 400 (b) of the Mutual Security Act).

(3) It should be generally recognized that the rapidly deteriorating export earnings potential of many Latin American countries may limit or reduce their abilities to obtain credit from existing institutions in amounts sufficient to finance demonstrably soundly conceived projects. In consequence, combinations of DLF and traditional loans may be requisite.

Discussion:

1. The legislative history of the DLF clearly establishes that all friendly underdeveloped countries are to be considered eligible for loans from the Fund, including specifically countries of Latin America. This history also shows that the sole criteria for exclusion of

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Economic. Limited Official Use. Drafted by Harry Conover of REA.

individual project applications relate to questions of their soundness, contribution to economic growth and ability to obtain financing on reasonable terms elsewhere. The Senate Foreign Relations Committee report stated "The Committee wishes to stress its understanding that every consideration will be given to Latin America in the use of the Fund." It emphasized that "The resources of the Fund, where appropriate, will be made available to Latin America notwithstanding the special provision of $25 million for assistance to that region" provided for in the Smathers Amendment (but not appropriated).

Similarly, the House Foreign Affairs Committee report: "The countries of Latin America will have equal access with other nations of the world to the Development Loan Fund in accordance with criteria established for the Fund".

In the discussions in the Senate Foreign Relations Committee, Senator Capehart placed considerable emphasis on the eligibility of Latin America for access to the Fund and asked "And they will be loaned a portion of it?" To which I responded "I think that is a fair assumption on your part; yes, sir, there is no reservation on my part on that". Before the House Foreign Affairs Committee I testified "We will tell the peoples of Latin America that we shall do our best through the Eximbank to satisfy their needs for sound development where capital is not available from private sources. . . . [2] There will also be access to the new Development Loan Fund, if Congress approves this proposal".

You, in your testimony before the Senate Appropriations Committee, stressed that there would be no individual country levels of aid: "If we wish to make the most businesslike use of our aid, it is essential that we allocate it on the basis of individual projects that we find worthwhile, and not on the basis of country totals." Similarly, Mr. Hollister before the House Appropriations Committee: "A Development Loan Fund would not make advance overall annual allocations by country. . . . Its financing would, instead, be geared to specific projects and programs." ARA has, however, noted references in Department messages indicating planned expenditures of $50 to $75 million of current DLF funds for India.

Recommendation (1) above is designed to preclude the possibility that the Fund's resources might be allocated on a "first come, first served" basis. Mr. Hollister in his testimony before the Senate Appropriations Committee stressed the unfairness of such an approach and the desire of the Administration to avert it. This risk, however, prevails in consequence of the despatch of two separate messages concerning the Fund's operations to our Missions in the

[2] All ellipses in this document are in the source text.

field. The first of these, circular telegram 368 of October 17,[3] called for action by Missions in Asia, the Far East, the independent countries of Africa, and Paraguay, Bolivia and Honduras to encourage the submission of proposals. The second message, circular 3946 of October 25,[4] was addressed to all other Latin American Missions, instructing them merely to provide information concerning the DLF to local governments and other potential applicants when requested to do so. In concurring in the despatch of these two instructions, it was not the intention of ARA to imply that countries in the second category were either to be debarred from access to the Fund or discouraged from applying to it. Indeed, CA–3946 indicated that the earlier message was limited to the three Latin American posts merely because these "were considered to have relatively greatest need at this time for purposes of Development Loan Fund and most readily qualified under its loan criteria." Moreover, it was ARA's view that it was inadvisable in the formative stages of the DLF to clog its administrative machinery with a cumbersome number of applications, and simultaneously unseemly for our Missions to raise false hopes through extensive publicity and solicitation of proposals in the face of currently limited Fund appropriations. The unwarranted conclusion drawn in some quarters from the existence of two separate messages with respect to the Fund to the effect that only three countries in Latin America (with the ultimate addition of Haiti when the political situation there stabilizes) definitively are eligible for access to the Fund should be corrected.

2. The Smathers Amendment (Section 400 (b) of the Mutual Security Act) was designed to finance primarily on a loan basis projects of a social infrastructure type. The $25 million authorized for this purpose was not appropriated by the Congress, in part because the sponsor of the Amendment and others were led to believe that its objectives would be attained through MSA Special Assistance funds and the DLF. The Executive Branch, in fact, opposed the appropriation of funds under the Smathers Amendment on these grounds. Thus, Mr. Snow before the House Appropriations Committee: "We do not consider this a necessary provision to make because the type of loan contemplated by Senator Smathers is also contemplated under the new Development Loan Fund . . . and that the sort of loan contemplated would come under that Fund". Similarly, you, before the Senate Appropriations Committee, said: "We did not originally request these funds ($25 million of Smathers Amendment) because we had intended to take care of the Latin American demands through two sources, either the Development

[3] Not printed. (Department of State, Central Files, 700.5–MSP/10–1757)
[4] Not printed. (*Ibid.*, 720.5–MSP/10–2557)

Loan Fund to some extent, or through special funds of the President."

Your testimony before the Senate Foreign Relations Committee and the Fund booklet indicates that projects in the fields of education, health and sanitation which contribute to economic growth are especially considered to qualify for Fund financing, in view of the fact "It is not the policy of established public lending institutions to finance such projects."

Recommendation (2) is designed to assure that administrative consideration will be given to projects of this type. Among them are land development projects for settlement of European emigrants in Brazil and Argentina which have been specifically endorsed by Congressmen Walter, Chelf and Celler, as well as endorsed in principle by Senator Smathers, Congressman Judd, and others.

3. The significant declines in prices of commodities such as tin, lead, zinc and copper which have occurred since late 1956 have adversely affected the balance of payments positions of several important Latin American countries and reduced their credit worthiness. The threatened imposition of United States tariff and quota restrictions on imports of lead and zinc would further impede their economic growth. Moreover, prospects for maintenance of current price levels for coffee, a commodity of major significance to Brazilian, Mexican, Colombian and Central American economies, are dim. The likelihood, therefore, is that many of these countries soon will approach the limits of credits available from existing institutions, particularly when account is taken of their existing repayment obligations.

In consequence, many soundly conceived projects in Latin America are likely to obtain from established lending institutions only part of the financing requested. Specific illustrations of this situation already prevail in Chile, Ecuador and Honduras. Were the DLF to supply part of the foreign exchange or local currencies needed for these projects, existing institutions such as the IBRD, likely would be prepared to supply the remainder.

This is precisely the type of situation visualized by the Executive Branch at the time the DLF was proposed. Thus, Mr. Hollister in testimony before the House Appropriations Committee: "For example, one of the existing public lending institutions might meet the foreign exchange costs of a project while the Fund financed the purchase of commodities to generate part of the necessary local currency". Similarly, you before the Senate Appropriations Committee: "The Fund might join one of the existing public lending agencies in the financing of mutually interdependent projects".

4. The political importance at this time of demonstrating a sympathetic awareness of Latin American needs and aspirations in

the administration of the DLF is highlighted by recent events. At the Buenos Aires Conference the United States reiterated its opposition to the establishment of an inter-American bank, primarily on the grounds that the resources and procedures of existing international lending institutions were adequate. Subsequently, the United States endorsed in principle the channeling of funds for capital development through the UN, whose officials are now proposing that these move initially into an Arab Union Bank. The impression on the part of the Latin Americans, however unwarranted it may be, that the United States has neglected them in relation to other areas persists. Dr. Milton Eisenhower has recently observed that it has in fact been accentuated. Simultaneously, the Soviet Bloc has intensified its trade, credit and "assistance" offers, provoking increasingly responsive reactions, particularly from Uruguay and Brazil. These circumstances, coupled with the increasing interest on the part of Congressional leaders in DLF operations as these relate to Latin America, underscore the timeliness of the recommendations set forth above.

MEETING OF THE AMERICAN PRESIDENTS IN PANAMA, JULY 21–22, 1956; AND THE INTER-AMERICAN COMMITTEE OF PRESIDENTIAL REPRESENTATIVES

109. Editorial Note

Significant documentation on the meeting of the American Presidents and the Inter-American Committee of Presidential Representatives is contained in Department of State, Central Files 361 and 362 and *ibid.*, OAS Files: Lot 60 D 665, Boxes 179–184. The most useful summary documents of the Inter-American Committee of Presidential Representatives are the CPR Memoranda, numbered 1 to 223, in the OAS Files in folders marked CPR Memos. Boxes 179 and 184 contain the most important documentation. Box 179 contains material on the Committee's work from September 1956 to January 17, 1957; particularly important folders are CPR Memos, 1–63; CPR Memos, 64–144; List of Proposals; and Position Papers. Box 184 contains material on the formation of the Committee in the summer of 1956 and the evolution of the proposals through the subcommittee proposals in March–April 1957. Box 180 contains documentation on the January and May meetings; Box 181 contains the minutes of the September and January meetings; Box 182 has material used by the subcommittees and Interim Committee; and Box 183 contains the drafts of the proposals.

110. Memorandum of a Conversation, The White House, Washington, April 24, 1956[1]

SUBJECT

Proposed Meeting of American Presidents

PARTICIPANTS

The President
Secretary General Mora of the Organization of American States[2]
Assistant Secretary Holland

The President congratulated Dr. Mora on his election as Secretary General of the Organization of American States and expressed his admiration of the work that the Organization is doing.

Dr. Mora expressed his own views as to the importance of the Organization as a means of improving relations between the American States and improving the welfare of the individual States. He also spoke of the importance of the Organization as an example to the rest of the world.

The President stated that he had been hopeful and was still hopeful that he could make a visit to Latin America, but recognized the difficulty in visiting one country without visiting others.

I said that if he was willing to visit the area an opportunity lay in the immediate future which might justify his visiting one country without visiting the entire area. That was the celebration to be held in Panama on June 25 and 26 commemorating the One-Hundred and Thirtieth Anniversary of the First Pan American Congress called by Simón Bolívar.[3] I said that it would probably be easy to arrange for President Arias of Panama to issue an invitation to all American Presidents to visit Panama on these days if we could indicate to him

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[1] Source: Eisenhower Library, Whitman File, Administration Series, Organization of American States. Confidential. Drafted and initialed by Holland on May 25. Attached to a memorandum of May 29 from Howe, this memorandum was sent to Goodpaster for approval. The source text bears Goodpaster's handwritten notation of May 31 stating he telephoned his approval to Howe and asked that distribution be restricted.

[2] José Antonio Mora Otero, Uruguayan statesman and diplomat, was elected in 1956 to fill the unexpired term of Carlos Dávila as Secretary General of the Organization of American States.

[3] This Congress, held in Panama June 22–July 15, 1826, was called by Simón Bolivar who was then President of Gran Colombia and Peru. He invited the Spanish American nations to meet to establish a confederation that would provide mutual security in defense of their independence. Although representatives attending the conference from Central America, Mexico, Gran Colombia, and Peru, along with unofficial representatives of Great Britain and Holland, never ratified the treaties drawn up, the Congress did establish the goal of hemispheric unity and set a precedent for subsequent meetings of Spanish American nations to solve their common problems.

in advance that President Eisenhower would probably accept the invitation.

I explained that, while the suggestion had been in my mind for several days,[4] I had not had an opportunity to discuss it with Secretary Dulles, something I was sure he would want us both to do before he considered it seriously. I said I did not hesitate to raise the idea in the presence of Dr. Mora because I had every confidence in his discretion.

The President examined his calendar and said that his initial reaction was that he would like very much to visit Panama on June 25 and 26 if arrangements for an invitation to all the American Presidents could be made and if no insuperable obstacle arose. He expected to confer with Secretary Dulles later in the day and asked that I discuss the proposal with the Secretary prior to their conference.

(Immediately upon my return from the White House I reported the foregoing to the Secretary who said that he would discuss the matter further in his conference with the President later in the day. I stated that I had intended to take the proposal up with the Secretary before mentioning it to the President, but that his unexpected statement of interest in visiting Latin America had created an opportunity which, it seemed to me, should be seized.

On April 30 the Secretary authorized me to cable our Ambassador in Panama[5] instructing him to state to the President of Panama[6] that if the latter should see fit to invite all of the American Presidents to visit the country on June 25 and 26 to participate in ceremonies commemorating the original Pan American Congress, the Ambassador felt that the President of the United States would probably accept, particularly if a representative group of Presidents were to accept the invitation. The cable was sent through channels of another agency on that same day.)

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[4] In a May 24 memorandum for the file, Holland explained that the idea of a Presidential visit to Latin America had first been mentioned to him by Lyon on April 16. After consulting Secretary Dulles, who obtained confirmation from the White House that the President might make a short visit there, Lyon informed Holland who discussed the possibility with the members of the ARA staff on April 21. They agreed that the commemoration of the First Pan American Congress gave the President an opportunity to meet with other inter-American presidents. After consulting the President's brother, Milton Eisenhower, on April 22, Holland made the proposal himself to Eisenhower on April 23. (Department of State, Central Files, 362/5–2456)

[5] Julian F. Harrington.

[6] Ricardo Arias Espinosa.

111. Circular Telegram From the Acting Secretary of State to Certain Diplomatic Missions in the American Republics[1]

Washington, May 2, 1956–7:48 p.m.

759. Personal attention Chiefs of Mission. President Eisenhower has received from Panama invitation for a two-day visit on June 25 and 26 to participate in ceremonies commemorating 130th Anniversary first inter-American meeting, Congress of Panama called by Bolivar 1826. Understood similar invitations being extended Presidents other 20 American Republics through Panamanian missions.

White House informed Department President would very probably accept invitation if number other Presidents accept.

Department considers it very desirable such meeting of Presidents occur. You requested approach government to which accredited immediately informing it of invitation to President Eisenhower and stating understood similar invitation also sent to it; that your government has requested you consult with it; that U.S. strongly inclined accept but wishes know attitude others. We understand meeting would be purely ceremonial in character.

Advise of action by government and keep Department informed of comments and appraisement of meeting.

FYI Panamanian invitation related to plan approved today by Council OAS hold special meeting Panama in June commemorating same occasion but Council unaware possibility meeting of Presidents. End FYI.

Department realizes difficulty maintaining secrecy this plan. However you should urge importance keeping matter secret for time being.

Hoover

[1] Source: Department of State, Central Files, 362/5–256. Secret; Niact; Limit Distribution. Sent to all diplomatic missions in the American Republics except Panama; repeated to Panama. Drafted by Dreier and Neal and approved in draft by Holland, whom Dulles appointed as coordinator of the Panama meeting. (Memorandum from Dulles, May 8; *ibid.*, 362/5–856)

112. Editorial Note

Officials in the Bureau of Inter-American Affairs believed that the historic nature of the occasion of the Presidents meeting in

Panama would be enhanced by the issuance of a declaration signed by them all which reaffirmed hemispheric solidarity and expressed their faith in the principles of the Organization of American States. In a memorandum of May 8 to Holland, Lyon, Bernbaum, Neal, Memminger, and Hilton, Ambassador Dreier wrote, "In view of the general state of international relations in the world, characterized by changing tactics in the cold war and such steps as the recent emphasis upon reorganization of NATO, it would seem essential that some declaration of policy, even of the most general sort, should emanate from the meeting of American Presidents." (Department of State, Central Files, 362/5–856)

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113. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, May 16, 1956—4:08 p.m.

793. Joint State–USIA message. In light announced intention President Eisenhower attend Panama meeting and supplementing guidance CA–8724[2] and Usito 484[3] pre-conference output should stress following themes:

1. Government Panama originated idea presidents' meeting. Give full recognition Panama as host of meeting which honors Congress Panama as first "Pan-American" meeting, forerunner present OAS. Important avoid implication meeting organized or run by U.S.

2. Meeting will demonstrate to world: a) warm relationship among presidents and peoples American Republics. Contrast friendly cooperative spirit inter-American Good Neighbor-Good Partners relationship with arid concept of "co-existence"; b) advanced development and successful performance OAS and c) veneration accorded by all American Governments and people to memory Bolivar and principles he espoused.

3. Pan American system very old with roots in Latin America. Present Charter OAS embodies in more developed form principles of treaty drafted by Congress Panama 1826. (Review purposes of OAS

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[1] Source: Department of State, Central Files, 511.00/5–1656. Confidential. Drafted by G. Richard Monsen, Foreign Affairs Officer, USIA, and approved by Hilton.

[2] Not printed. (*Ibid.*, 511.00/5–456)

[3] Not found in Department of State files.

set forth Article 4 Charter.)[4] Meeting underlines common values purposes American Republics.

4. Meeting will be ceremonial and commemorative. Its value and purpose will be promote greater understanding among American Governments by affording opportunity for heads State meet and know each other. No formal agenda or substantive discussions planned.

5. Important portray President Eisenhower's role as that of associate of other Chiefs State and Panamanian guest. Stress his identification with group not as dominating figure. Interpret his presence Panama as evidence importance U.S. attaches its relations with Latin America and value Inter-American system.

6. To play down possible impression U.S. is running show use material Latin American sources and datelines whenever appropriate and justified.

Dulles

[4] For text of the charter, which entered in force for the United States on December 13, 1951, see TIAS 2361.

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114. Circular Telegram From the Acting Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, June 1, 1956—7:33 p.m.

841. Embassy Panama reports that on June 2 President Arias will present to each American Ambassador draft declaration and program for Panama meeting requesting that comments of governments be submitted to Council of OAS for harmonization by it. Department feels this will improve prospects full attendance. FYI Prospects indicate good attendance, nevertheless importance to US world prestige of maximum attendance justifies continuing discreet effort obtain additional firm commitments and prevent cancellations without creating impression attendance constitutes favor to US or that US prime mover. End FYI. Your discretion utilize following points:

1) Successful Panama meeting will considerably enhance world prestige Inter-American system and Latin America's influence world affairs. On contrary unsuccessful meeting will diminish present

[1] Source: Department of State, Central Files, 362/6–156. Secret; Priority; Limit Distribution. Drafted and approved by Holland.

prestige American system. Thus no President can take apathetic attitude.

2) Meeting affords only opportunity President Eisenhower establish personal relationship each American President thus strengthening inter-American cooperation during his Administration.

3) Spectacle large number American Presidents assembling will greatly strengthen cause free world.

4) Proposed declaration Panama can mark vigorous restatement determination American republics progress as community.

5) Successful meeting will inevitably strengthen OAS enabling it become more effective factor for peace and development hemisphere.

Hoover

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115. Editorial Note

On June 2 the Panamanian Government circulated a draft declaration to the Ambassadors of the other American Republics and suggested that comments be sent to their respective representatives on the Council of the Organization of American States (COAS) who would finalize the draft. (Telegram 419 from Panama City, June 1; Department of State, Central Files, 362/6–156) Assistant Secretary Holland and his staff found the Panamanian draft too long and too detailed, factors they believed to be serious obstacles to approval by the Presidents. Officials of the Bureau of Inter-American Affairs, meanwhile, had prepared a draft declaration which they considered suitable from "the political and practical standpoint" and which Secretary Dulles approved on June 5. (Memorandum from Holland to Dulles, June 5, with draft attached; *ibid.*, 362/6–556.) Ambassador Dreier circulated this draft informally to the members of the COAS as an unofficial working paper while they were revising the Panamanian draft. (Telegram 357 to Panama City, June 8; *ibid.*, 362/6–156) On June 13 the General Committee of the COAS approved a draft of the declaration prepared by a working group consisting of the representatives of Brazil, Mexico, and the United States. In a memorandum of June 14 to Dulles, Holland wrote that the draft prepared by the working group incorporated "much of the language of the United States proposal and is consistent with its general character." Dulles suggested two changes and authorized Holland to inform the representatives of the governments of the Organization of American

States that the United States considered the draft satisfactory. (*Ibid.*, 362/6–1456)

On July 2, the General Committee of the COAS met to consider the comments of the various governments and the working group subsequently prepared a revised text. After the revision was approved by the General Committee on July 3, the Council asked its members to transmit it to their respective Presidents for final review and approval. The revised text which incorporated suggestions made by Dulles as well as other representatives remained substantially the same as the draft prepared by the working group. (Memorandum from Holland to Dulles, July 5; *ibid.*, 362/7–556) President Eisenhower approved it on July 9. (Memorandum from Hoover to Eisenhower, July 6, Eisenhower Library, Whitman File. A copy of this memorandum with attached draft of declaration is in Department of State, Central Files, 362/7–656.) For text of the declaration signed by the Presidents in Panama on July 22, see Department of State *Bulletin*, August 6, 1956, page 220.

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116. Editorial Note

Assistant Secretary Holland and his colleagues in the Bureau of Inter-American Affairs believed the Panama meeting should produce some tangible result. In June and early July, they discussed a variety of proposals which could be presented by the President in his speech and could serve as justification for the meeting. Holland's colleagues reacted favorably to his suggestion outlined in a memorandum of July 8 that the President propose the establishment of a Presidential committee to review activities of the OAS in the economic field. Holland's July 8 memorandum to Rubottom, Turkel, Dreier, Randall, and Bernbaum and additional documentation on their discussions are in Department of State, OAS Files: Lot 60 D 665, President's Committee to Review Activities of the OAS in the Economic Field to September 1956, hereafter cited as President's Committee to September 1956.

117. Memorandum by Harold M. Randall, United States Representative to the Inter-American Economic and Social Council[1]

Washington, July 16, 1956.

PROPOSED PRESIDENTIAL COMMITTEE TO REVIEW ACTIVITIES OF THE ORGANIZATION OF AMERICAN STATES IN ECONOMIC FIELD

Problem:

To cause the Panama Meeting to produce something of concrete accomplishment of value to the Latin American countries and which will also contribute to U.S. Foreign Policy objectives.

Proposal:

That at the conference President Eisenhower ask the other Presidents to consider the wisdom of establishing a committee with the following characteristics and objectives:

1. The committee to be comprised of one personal representative to be named by each President, a person of recognized stature, experienced in the field of economic development. Dr. Milton Eisenhower would be an appropriate United States representative because of his great prestige at home and throughout Latin America.

2. The committee to submit to the Presidents its recommendations as to ways and means whereby the OAS can be used to intensify and coordinate efforts in the fields of economic development and public welfare, with particular reference to its programs of technical cooperation.

Preparatory to studying the fields and in making such recommendations the committee would need to review current activities of the OAS in the fields mentioned.

The committee's terms of reference would not include a study of the structure of the Organization. Its recommendations as to

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[1] Source: Department of State, OAS Files: Lot 60 D 665, President's Committee to September 1956. Secret. This memorandum is Randall's revision of Holland's July 8 memorandum incorporating suggestions of ARA officers. It was sent to Holland under cover of a memorandum from Randall dated July 17 and approved by Holland on July 19. In his memorandum of July 17, Randall wrote in part as follows: "Presuming that the President will propose the formation of this Committee, the Department should undertake promptly preparation of a detailed plan of procedure and a position to guide the U.S. Representative on the Committee. "A preliminary outline for subsequent clearance with other Departments should be ready for you on your return from the present trip." Holland's handwritten notation under these last two sentences reads, "Fine."

increased utilization of the OAS should be limited to those activities possible within its present framework.

The committee would automatically dissolve with the submission of its recommendations to the Presidents.

3. The proposal should make clear the desire of the American Governments to continue their full support for United Nations activities both through ECLA and in the field of technical assistance. The purpose of the Committee would not be to weaken the effectiveness of any United Nations effort, but simply to increase the effectiveness of the OAS.

4. Shortly after the Panama meeting the President should:

a) Invite the Committee to hold its organizing and work planning meeting in Washington, and suggest a date for such meeting.

b) Inform the Committee that the U.S. would undertake to withstand the costs of a Secretariat adequate to assist the Committee in fulfilling its commitment. This Secretariat could be recruited through the Pan American Union but would not be a part of it. Any personnel of the P.A.U. serving on it should be temporarily separated from their regular service.

c) Announce that with a view to the implementation of the recommendations of the Committee, the U.S. is prepared to increase its contributions to an expanded OAS program.

Manner of Presentation:

1. The proposal should be submitted informally by President Eisenhower to the other American Presidents in the course of the two meetings that he will have with them on July 21—a morning closed meeting and an evening reception. I think we can be sure they will accept it favorably.

2. It should then be offered in the course of his public statement at the time of signing the Declaration of Panama on the morning of July 22.

3. In making the proposal he should refer to the committee as being a concept developed in the course of the conference of the Presidents at the meeting. This will allow them to share credit for the proposal and will then give a greater appearance of substance to the meetings.

Benefit of Proposal:

1. It can be expected that such a committee will develop sound recommendations for expanded and more effective activity of the OAS in the fields mentioned. Those recommendations, having been developed by representatives of the Presidents themselves, will enjoy greater support from the Latin American governments than the activities of the OAS in this field have in the past.

2. The establishment of such a committee will tend to satisfy the clearly demonstrated eagerness throughout Latin America that the meeting produce something tangible in the field of economic development.

3. The establishment of the Committee would constitute a significant deterrent to the current Soviet campaign for expansion of diplomatic and economic relations in Latin America.

4. Through the Committee members, and particularly if the United States representative is a man of prestige and persuasiveness, we can exert significant influence on the economic thinking of the other American Presidents. This is a very important consideration. A number of the Presidents are men of little experience or knowledge in this field. Often they are influenced and guided by men whose advice is either unsound or really harmful. Given the broad powers of many Latin American presidents this creates serious problems for our foreign policies. Our own means of exercising sound influence through adequate and effective presentation of our own points of view the various Presidents are often insufficient and less than satisfactory.

5. The establishment of such a Committee would give increased significance to the concept of partnership in inter-American relations and would contribute to the gratifying feeling that the United States actually wants the counsel and advice of the other American republics.

6. By intensifying the activities of the Organization of American States in the economic and technical cooperation fields, the work of that Organization will become more positive:

a) By serving as an Inter-American forum where solutions to current and long range economic problems can be sought and where undesirable propositions or devices can be combatted.

b) If the activities of the OAS expand in the fields mentioned and the Governments of the Member States adopt a more positive policy in support of the Organization it is inevitable that they will likewise strengthen their own positions therein by naming more qualified representatives.

7. Intensification of the activities of the OAS should provide greater coordination at governmental level as to the policies of each Government with respect to United Nations and OAS agencies. With coordinated policy at governmental level in the various states it should be more difficult if not impossible for a country's representative in the UN to pursue a policy different from that prescribed for its representative in the OAS. This should deter somewhat the activities of persons dedicated to controlled economies and state intervention in the field of business which frequently produce difficult problems for the United States.

Objections to the Proposal:

1. The Committee might submit recommendations unacceptable to the U.S.

This is a calculable risk but the Committee's terms of reference are limited. The Rio Conference[2] demonstrated that U.S. defense should be a vigorous offense. By committing ourselves to policies which identify the U.S. strongly with Latin American aspirations for economic progress, we should at least stand an equal if not better chance of convincing a Committee of the correctness of our views than we would have in convincing delegations at short time international Conferences.

2. The establishment of such a Committee would weaken the prestige and effectiveness of the Inter-American Economic and Social Council.

The effect should be the opposite. The avowed purpose of the Committee would be the more effective use of the OAS in the economic field not a revamping of the Organization. If the Committee reaches the conclusion that the Organization can be used more effectively, it would follow logically that the work of the IA-ECOSOC would be expanded and the caliber of its representation improved.

3. The establishment of such a committee would weaken the prestige of United States Ambassadors in the field.

This would not be true if the Committee is to complete its survey and dissolve. It could, instead, supplement and strengthen the influence of our Ambassadors.

4. The appointment of the Committee would be interpreted as a propaganda stunt.

This might well be the communist line. However, the move would be exceedingly popular in Latin America, particularly if someone of the stature of Dr. Milton Eisenhower were the United States representative.

5. There is nothing constructive that such a Committee could recommend which would be acceptable to the United States.

This is a difficult objection to disprove in advance of the Committee's deliberations. My own conviction is that there are a number of recommendations which would be constructive, particularly in the fields of education, public health and of the OAS multilateral technical cooperation programs.

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[2] The Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, commonly called the Rio Economic Conference, was held at Quitandinha, Brazil, November 22–December 2, 1954. For documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

6. The proposal would build up excessive hopes throughout Latin America.

This is an objection which could be made to any constructive move. It would indicate that the best policy is to do nothing. The best way to avoid building up excessive hopes would be through the use of temperance in our statements at the time of the Committee's establishment and during the course of its deliberations.

7. If the Committee fails to produce sound recommendations, and if these are not supported by the Government, then our inter-American relations suffer.

If no venture in international relations is to be undertaken save where we have an advance guarantee that failure will not prejudice the United States then little will be undertaken. In such a Committee the United States would have to use its influence along with that of other leading American states to ensure that any recommendations finally submitted by the Committee have already received the confidential approval of the various governments.

8. If the present mechanisms of the Organization of American States are not contributing adequately to economic development in the hemisphere it is not reasonable to hope that such a Committee will be able to make them successful.

Defective as it may be, the OAS has achieved great progress since its establishment. The limitations on this progress in the economic field as compared with the political are due to:

a) The complicated nature and the variety of the economic problems that arise;

b) Work in this field is new and limited compared to that in the political; and

c) The failure of the Member States to use the Organization in a positive way.

Recommendations of a Committee of such high level should be effective if followed up by the respective Governments in like manner.

9. The Latin Americans will oppose any move which appears intended as a device to weaken ECLA.

This is true, but in proposing the Committee we can make it clear that we intend to continue our support for and reliance upon the United Nations.

118. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, July 18, 1956—6:25 p.m.

37. President Eisenhower considering proposing in speech at Panama each American President name personal and trusted representative to join in preparing concrete recommendations for making OAS more effective instrument in those fields of cooperative effort that affect the welfare of our peoples. Presidents could look to these representatives for practical suggestions in economic, financial, social and technical fields which OAS might usefully adopt.

You may discuss this proposal in strict confidence with President your country to ascertain whether he has any objection since President Eisenhower would like to put proposal forward as idea viewed favorably by Presidents meeting Panama.

Dulles

[1] Source: Department of State, Central Files, 361/7–1856. Secret. Drafted by Memminger and approved by Holland.

119. Editorial Note

The Presidents of the American Republics met in Panama City on July 21 and 22 at the invitation of President Arias. Originally scheduled for June 25 and 26, the meeting was postponed because President Eisenhower underwent surgery on June 9. The Presidents convened during the meeting of the Council of the Organization of American States held July 18 to 22 commemorating the Congress of Panama. President Eisenhower stayed in Panama from July 20 to 23 and was accompanied by Secretary Dulles and Assistant Secretary Holland. In a memorandum of conversation, June 7, Dulles wrote that he told the President he "had better go with him to Panama. He [the President] said this was entirely agreeable to him and what he would wish except that he did not want to put me in the position where I would be subordinated in an undignified way by all of the other Presidents. I mentioned that the other Presidents were bringing their Foreign Ministers; that he would be having direct talks with some of the other Presidents where probably I should be present, and that I had been criticized in Latin America for ignoring Latin

America. The President recognized the validity of these points." (Eisenhower Library, Dulles Papers, Meetings with the President)

The signing of the Declaration by all the heads of state or their representatives on July 22 climaxed the ceremonial program. For text of the Declaration, see Department of State *Bulletin*, August 6, 1956, page 220. A list of the signers of the Declaration and a copy of it were transmitted to the Department of State in despatch 29 from Panama City, July 30. (Department of State, Central Files, 362/7–3056)

After the signing ceremony, each President was given an opportunity to make brief remarks. In his speech, President Eisenhower proposed that each country send a representative to the United States to help prepare recommendations for making the Organization of American States a more effective instrument. Although the Bureau of Inter-American Affairs had prepared a draft of the President's speech (memoranda of July 3 and 12, from Randall to Holland; *ibid.*, OAS Files: Lot 60 D 665, President's Committee to September 1956), the President preferred a draft which Secretary Dulles personally wrote and sent him on July 17. The President wrote his corrections on the draft and approved it with the request that Dulles add a sentence about the peaceful uses of nuclear power. The Secretary's letters of July 17 to the President and of July 19, to Ann Whitman containing the additional sentence, are in Eisenhower Library, Whitman File, Dulles–Herter Series. The text of President Eisenhower's speech is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1956* (Washington, 1958), pages 609–612.

On July 23 and 24 President Eisenhower held a series of conversations with all the heads of state or their representatives attending the conference with the exception of President Alberto F. Zubiria of Uruguay. Copies of these memoranda are in Department of State, Conference Files: Lot 62 D 181, Panama Chronology and in Eisenhower Library, Whitman File.

120. Diary Entry by the President[1]

July 25, 1956.

So far as I am concerned, the meeting just concluded at Panama gave me a chance to pay my respects, in a single conference, to each of the Republics lying to the south of us. From time to time I had entertained the idea of a tour of that region, but all such plans were always wrecked on the obstacle of time. No President could ever leave the country for a sufficient length of time to pay a meaningful visit to each of twenty countries.

The opportunity to make the trip came about in a rather odd way. A new Secretary General of the Organization of American States, Senor Mora, was appointed and promptly requested permission to come to my office to pay his respects. He was accompanied by Mr. Holland.[2] During the conversation at my desk, he told about the forthcoming meeting in Panama in celebration of the 130th anniversary of the signing of the Bolivar Agreement. He happened to remark, "It would be wonderful if you personally could come." I instantly replied that if other heads of state would show any interest in the matter, I thought I could come.

When the idea was suggested to the President of Panama, he picked it up and issued invitations to the heads of state and we were soon assured that most of the heads of state would attend.

The date of the meeting was June 20th, but when I was taken sick and had to undergo an operation, the other Presidents agreed to postpone the meeting in the hope that I could come later.

It was a great success from the standpoint of public relations. Each of the Presidents that I met seemed to consider my visit to Panama practically as a personal visit to his particular country. It had, of course, been my hope to inspire this feeling. Press stories from some of these countries more or less reflected the same view.

The official parts of the meeting were completed within two days. I stayed over a third day because so many of the other Presidents had asked permission to make a personal call on me at the American Embassy. I had an opportunity either that day or the evening before to talk privately to each, with the exception of the President of Uruguay.

As individuals I thought the President of Paraguay (Stroessner) and Nicaragua (Somoza) stood out. I was also quite taken with old General Ibanez of Chile. Kubitschek of Brazil is smart, quick, but I am a little uncertain as to his stamina if he gets into a real battle.

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries.
[2] See Document 110.

All in all, I would class the meeting as a very successful affair in the promotion of good will.

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121. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, August 7, 1956—6:26 p.m.

100. Following note should be presented soonest.

"Excellency:

Under instructions from my Government I have the honor to inform Your Excellency with regard to the nature and terms of reference envisaged by President Eisenhower for the special committee whose formation and purpose he had the honor to suggest during the course of the recent Meeting of Presidents of the American Republics, in the Republic of Panamá.

I am instructed first to inform Your Excellency of the appreciation of President Eisenhower for the support extended by His Excellency (*name*) President (or President elect) of (*country*) to the proposal that such a committee be formed, and respectfully to request that both this expression of appreciation, and the recapitulation which this note contains of the thoughts of President Eisenhower on the implementation of the proposal, be transmitted to His Excellency.

As Your Excellency knows, President Eisenhower suggested at Panamá that each President name a special representative to join in forming an ad hoc committee, and at that time stated that Dr. Milton Eisenhower would be his representative. It has been his feeling that the terms of reference for this committee should be the following:

> To prepare concrete recommendations for making the Organization of American States a more effective instrument of cooperative effort in the economic, financial, social and technical fields.

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[1] Source: Department of State, Central Files, 361/8–756. Confidential; Priority. Drafted by Randall and approved by Rubottom. Dulles sent the draft of this telegram to the President for approval under cover of a memorandum of August 6, in which he wrote in part as follows: "The Department proposes to send the enclosed draft note to our Latin American Embassies for immediate presentation to the respective Governments. This will serve as the first step in implementation of the proposal made by you in Panama and will clarify the nature and the scope of the Committee whose formation you suggested. As no public expression of clarification can be made prior to informing the Governments, I feel it urgent that this note, if you agree, be sent as soon as possible." Eisenhower approved and initialed this telegram on August 6. (*Ibid.*, 362/8–656)

In this regard to give particular consideration to the more effective utilization of the Organization by the Member Governments.

Upon submitting its recommendations to the Presidents, the Committee will terminate its activities and dissolve.

I am likewise pleased to inform Your Excellency that it is the intention of the Government of the United States to invite the committee to convene in Washington. My Government will, in the near future, consult with Your Excellency's Government with regard to a date for the meeting of the committee.

My Government would welcome any observations or suggestions which Your Excellency or His Excellency, President (or President-elect) (*name*) may wish to transmit with regard to the committee and its work. I shall, of course, likewise take occasion to inform Your Excellency of any additional suggestions my Government may have. I also respectfully request that Your Excellency inform me of the name of the person designated by your President (or President elect) to serve on the committee, once he has been appointed.

In closing, Your Excellency, I am instructed to add that, with a view to clarifying the nature and scope of this committee, my Government deems it desirable that the contents of this note be made public. It consequently invites Your Excellency's Government to join it in simultaneous release to the public press and suggests that the release be made not before 12 noon Eastern Standard Time, August 13.

Accept, Excellency, the renewed assurances of my highest consideration."

When reporting name representative appointed please forward biographical data or indicate previous reports. Inform Department promptly any observations particularly re proposed date of press release.

Dulles

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122. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, August 12, 1956—5:05 p.m.

120. ReDepcirtel 100.[2] Department in consultation with Dr. Milton Eisenhower has been giving thought to functioning of Presi-

[1] Source: Department of State, Central Files, 361/8–1256. Confidential. Drafted by Rubottom and signed for the Secretary by Holland.

[2] *Supra.*

dents Committee. You should immediately convey the following ideas to Foreign Minister and ascertain views his government.

Best procedure would appear to be to hold two meetings. First would be organizational and would provide opportunity for exchange of general ideas and presentation of suggestions regarding areas in which functioning and utilization of OAS could be improved. Guide lines for a work program would be adopted. Committee would then adjourn to permit OAS and each government to study proposals in detail and prepare and exchange concrete recommendations. It is hoped first meeting might last no more than three days. Hope within few days to authorize proposal target date during last half September.

Second meeting would follow few months later and would be full-scale meeting lasting perhaps two or three weeks which would prepare final recommendations for presentation to the respective Presidents.

In consonance with President Eisenhower's nomination of Dr. Milton Eisenhower as his representative, U.S. hopeful that Presidents will name representative of Cabinet or equivalent rank to assure that Committee will be made up of representatives having sufficient prestige to obtain implementation of its recommendations. Where representatives have already been named, doubtful if further representations this subject should be made. Where representatives not named, suggest you tactfully convey to Foreign Minister for consideration President the above hope.

Dulles

123. Memorandum of a Conversation, Department of State, Washington, August 17, 1956, 10 a.m.[1]

SUBJECT

Meeting of Eisenhower Committee on Organization of American States[2]

PARTICIPANTS

Dr. Milton S. Eisenhower

State
ARA—Asst. Secy. H. F. Holland
Mr. R.R. Rubottom, Jr.
Amb. Harold Randall
Mr. William Krieg
Mr. Ralph Hilton
Mr. Robert A. Conrads

E—Mr. Hamlin Robinson
IO—Mr. James Green
OIC—Mr. R. S. Wheeler
S/AE—Mr. Philip J. Farley
U/MSA—Mr. Joseph S. Farland
S/S—Mr. Robert Sturgill

Atomic Energy Commission
Admiral Paul F. Foster,
Special Asst. to General Mgr.
Mr. John Hall, Director,
Div. of International Affairs

USIA
Mr. Lewis C. Mattison,
Act. Asst. Dir. for Latin America

Health, Education and Welfare
Mr. Herold C. Hunt,
Under Secretary

Commerce
Mr. Marshall Smith, Act.
Asst. Secy, International Affairs
Mr. George Wythe

Agriculture
Asst. Secy. Earl Butz
Mr. Gwynn Garnett, Adm., FAS

Treasury
Asst. Secy. Andrew N. Overby
Mr. C. D. Glendinning, Deputy
Dirctor, International Finance

ICA
Mr. Harry Yoe,
Act. Regional Director, LA

Bureau of the Budget
Mr. R. M. Macy, Chief,
International Div.
Mr. George Vaishvila

Eximbank
Mr. Samuel C. Waugh, President

Dr. Eisenhower opened the meeting and immediately turned the floor over to Mr. Holland who briefly outlined the purpose of the meeting, the goal sought by the Eisenhower Committee, a proposed organization to achieve that goal insofar as U.S. participation is concerned and a suggestion of the procedure to be followed in the work of the Committee.

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[1] Source: Department of State, OAS Files: Lot 60 D 665, President's Committee to September 1956. Confidential. Drafted by Conrads and initialed by Holland.

[2] In September, this Committee was renamed the Inter-American Committee of Presidential Representatives.

Mr. Holland stated that the end product sought by the Eisenhower Committee is a report containing recommendations to the Presidents of the American Republics for means to make the Organization of American States a more effective instrument in the fields of finance and economy, technical assistance and social welfare. In order to advise Dr. Eisenhower, as the personal representative of the President, concerning his participation in the work of this Committee, Mr. Holland suggested that an interdepartmental committee similar to that which prepared for the Rio Economic Conference and is now engaged in preparing for the Buenos Aires Conference,[3] be established.[4] This sub-cabinet committee would avail itself of the services of the two standing committees, one in economic and the other in social affairs, which could start immediately to review the work of the OAS in the fields under study.[5] It would also be necessary to establish a separate nuclear committee to make a special study and formulate recommendations in that field.[6] The committees would make the appropriate surveys and give preliminary thought to the areas of the OAS in which improvements could be made.[7] At the same time all the representatives of the presidents would be asked to meet in Washington on the 17, 18, and 19 of September. At this preliminary meeting, they would present their proposals as to the areas in which the OAS could be improved and better utilized by its members. The Committee would then adjourn to analyse the proposals made at the first meeting and prepare for a longer meeting to take place some months later. During the interim between the September meeting and the later meeting, the preparatory work would be completed, views could be exchanged between the representatives and differences of opinion could be eliminated. When the

[3] Reference is to the plans for the Economic Conference of the OAS which was convened on August 15, 1957, in Buenos Aires. For documentation, see Documents 135 ff.

[4] In his August 22 memorandum to Hoover, Holland wrote that it was decided that a special Interdepartmental Policy Group would be established under the chairmanship of Milton Eisenhower to make the substantive preparations for his participation in the Committee. (Department of State, Central Files, 361/8–2256)

[5] Reference is to the Interdepartmental Committee of Inter-American Economic Affairs and to the Interdepartmental Committee on Social Welfare Policy.

[6] In addition to the group on nuclear energy which was created after this meeting to handle working level preparations, two additional groups were established: a departmental working group and a public information, education, and cultural exchange working group. These three working groups and the two interdepartmental committees were instructed to submit papers to the Interdepartmental Policy Group on ways in which the OAS could be strengthened.

[7] In late August and early September, the Interdepartmental Policy Group considered the substantive proposals from the five working groups and wrote position papers on all the proposals chosen for submission by the United States to the Eisenhower Committee at its first meeting on September 17. These position papers are in Department of State, OAS Files: Lot 60 D 665, Position Papers.

representatives finally meet again they would draft a report to the presidents. Mr. Holland emphasized that it was important for us as the nucleus of a policy-guiding group to see our goals clearly and determine our objectives rather specifically before the preliminary meeting opens on September 17.

Dr. Eisenhower then stated that a logical point at which to begin consideration of the problem before us was a review of the present structure and work of the OAS in the economic and social fields. He gave the floor to Ambassador Randall, U.S. Representative on the IA–ECOSOC, who described the OAS and its subsidiary agencies and their work in the economic and social fields. When Ambassador Randall had concluded his presentation, there were a number of questions and comments. It was noted that the Pan-American Sanitary Organization is the only OAS specialized agency that is fully recognized and utilized as the regional operating arm of its UN counterpart agency, in this case the World Health Organization. Dr. Eisenhower commented that it would be well if the UN were to recognize the Inter-American Economic and Social Council and utilize it similarly. Mr. Macy commented on the lack of interest in certain OAS projects and described his visit to a training school in Rio on natural resources which was operating on very limited funds. He commented that it would be well for the Committee to take a hard look at whether some of the groups functioning in this field are really producing.

Mr. Holland made summary comments on the work of the OAS, stating that we believe it to be the most advanced and effective regional organization in the world. It has been particularly effective in the political field. Our policy calls for the Western Hemisphere to be a model for the rest of the world. The attainment of this objective becomes of strategic importance. The Organization of American States has grown up over a period of years through the establishment of its component agencies at different times and to meet differing needs. Never has there been an "efficiency survey" of the organization and the time is appropriate for this to be done. Mr. Holland concluded that there is no doubt that our objective for the hemisphere is one that we can attain and that it is worth the time and effort which will be required to attain it. In answer to Dr. Eisenhower's question, Mr. Holland stated that there is no thought of diminishing bilateral programs to channel them through the multilateral mechanism. Dr. Eisenhower then asked Mr. Holland if he had specific objectives thought out for the Eisenhower Committee. Mr. Holland replied that he had no specific objectives in mind, but in general he felt that the OAS had floundered in the fields which the Committee is to consider, mainly because the governments of the other American Republics are not sufficiently interested

in supporting the organization. The Eisenhower Special Committee should have as its objective the dissipation of this apathy and Mr. Holland would hope that after January we would see a real interest in the OAS and a willingness to support and utilize it fully.

Mr. Overby then asked if there was any thought of strengthening the OAS with relation to ECLA or if this was simply to be a dress rehearsal of the Buenos Aires Conference in which we would hear Latin American complaints. Mr. Holland answered at some length, pointing to the UN record in Bolivia and indicating that he felt very strongly that the best interests of the United States and of the hemisphere would be served by strengthening the OAS. He continued that this should be done not by remaking the OAS, but by causing it to be more effective within its existing structure. Latin Americans would undoubtedly come up with many ideas likely to be presented at the Buenos Aires Conference, such as an inter-American bank, the establishment of minimum prices for Latin American products, et cetera, but that these were ideas which could be handled by making it plain at the outset that the Eisenhower Committee was not to be used as a vehicle for airing these ideas. In response to Dr. Eisenhower's question, Mr. Holland stated that the charter of the OAS does not preclude the establishment of an inter-American bank but that the terms of reference of the Eisenhower Committee do exclude it from the work of the Committee.

Admiral Foster then outlined a plan of the Atomic Energy Commission to establish an inter-American nuclear training and research center in Puerto Rico in cooperation with the University of Puerto Rico and indicated that the AEC is prepared to make substantial contributions in this field. Dr. Eisenhower commented that he hoped announcement of this program could be made at the first meeting of the Committee on September 17. In response to a question from Dr. Eisenhower, Admiral Foster indicated that he felt that determining the place of the OAS in the field of nuclear development in the Americas should be one of the objectives of the Eisenhower Committee. Dr. Eisenhower agreed that this could make the economic phase of the OAS work many times more effective.

Mr. Butz commented that the programming of local currencies generated through the sale of our agricultural surpluses could constitute a positive contribution in the economic field. Mr. Holland stated that PL–480[8] funds are being generated at the rate of $150 million this year, of which about $15 million is in local currencies and is available to the local governments and agreed that this would be an important contribution.

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[8] Reference is to the Agricultural Trade Development and Assistance Act of 1954; for text, see 68 Stat. 455.

Mr. Holland came back to the question of organization and procedure and stated that he felt the sub-cabinet group should be established and that the three working committees should be set to work to come up with thoughts on all of the subjects mentioned. Dr. Eisenhower indicated that we would need firm guidelines before September 17. Mr. Holland agreed that with Dr. Eisenhower's authority we would proceed to the establishment of the necessary organizational machinery. Mr. Overby commented that he thought it important not to await the formal exchange of letters to start to work, and it was agreed that initial preparations should begin immediately.

In answer to Mr. Smith's question concerning correlation of our domestic industry interests with the preparation of the conference (American and Foreign Power plans, for example), Mr. Holland stated that there certainly should be a correlation and he would anticipate that this could be accomplished through such bodies as the Business Advisory Council and the National Planning Association. Admiral Foster pointed out that accelerating the development of nuclear power depends to a large extent on encouragement given to private enterprise and continued that the AEC is considering ways of encouraging private enterprise and suggested that perhaps the Eximbank could be of help in this direction. Mr. Overby cautioned that it is well to exploit the publicity value of atomic energy development but that we should be careful not to lead the Latin American countries to false expectations. Admiral Foster indicated that he and the AEC are well aware of that pitfall.

Dr. Eisenhower then turned to the question of possible confusion between UN technical assistance programs, OAS programs and U.S. bilateral programs. There was a feeling that in some cases more harm than good results and there is little coordination. The present case of Argentina, where numerous studies of its economy have been prepared by different entities was used as an example. Mention was also made of troubles that result for the United States by reason of doctrines sometimes espoused by individuals in UN organizations, including ECLA, and sometimes by the entities themselves. Mr. Holland pointed out that a frontal attack on ECLA, whose establishment had been opposed by the U.S., would not be productive and would be resented in Latin America. Hence the appropriate tactics would be to strengthen the OAS to such a degree of usefulness that its recognition in Latin America would make it the primary agency. Mr. Smith commented on the experience of ECE vis-à-vis OEEC in Europe as shedding light on this possible development. Mr. Waugh commented on the strong staff available to Dr. Prebisch in ECLA and noted the scarcity of U.S. citizens on his staff. In response to a question by Dr. Eisenhower, Mr. Macy indicated that the Bureau of

the Budget could obtain for him a statement of the funds spent by each of the agencies of the United Nations in Latin America.

Dr. Eisenhower then made summary remarks more or less as follows:

The United States is in a critical situation in regard to this problem of strengthening the OAS. Our President has made the proposal that we study it and this therefore places an obligation upon us to come up with ideas. The stakes in this race are high. It appears that the United Nations agencies in Latin America are either deliberately or ignorantly working in conflict with United States objectives, and it seems clear therefore that we must make every effort to strengthen the Organization of American States in order to make the UN regional activities in this field unnecessary. Each agency represented here today and any others that may be concerned should give urgent thought to this problem.

Dr. Eisenhower asked Mr. Holland to call such meetings as might be needed to get this work under way quickly and asked that one other meeting of the entire group be called between now and the 17th of September. He stated that he would come back to Washington again as often as needed to carry out this important work. He wanted to make sure that if the Eisenhower Committee fails to achieve its goal, it will not be for lack of willingness or creative thinking on the part of the United States.

The meeting adjourned at about 11:15 a.m.

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124. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, September 6, 1956—7:31 p.m.

172. Inform President if possible otherwise appropriate top official there has been satisfactory response ideas suggested Depcirtel 150[2] and Department making plans September 17–19 meeting accordingly.

Also state meetings have been held with Dr. Eisenhower and various representatives U.S. Government with view clarifying fields

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[1] Source: Department of State, Central Files, 361/9–656. Confidential. Drafted by Dreier and approved by Holland. Dreier was named by Holland as coordinator of the preparations for the Inter-American Committee of Presidential Representatives.

[2] Not printed. (*Ibid.*, 361/8–2856)

and problems re which OAS can be more effectively utilized within terms reference outlined President Eisenhower's speech and note (Depcirtel 100).[3] Present thinking is to select topics in economic, financial, social and technical fields which lend themselves to active development through OAS within general framework present structure of Organization. Among specific topics receiving consideration are: training, research and technical assistance to governments in agriculture; improvement of industrial productivity; broadening inter-American business and professional contacts; eradication certain diseases; expansion educational and training facilities; increase research, training and technical assistance in housing; and peaceful uses of atomic energy. Emphasize no firm conclusions reached on any of these points at this time but by September 17 meeting U.S. will be prepared suggest specific topics which it considers appropriate for thorough examination pursuant procedure set forth Depcirtel 120[4] and give some idea of approach which U.S. thinks would be useful.

Dr. Eisenhower will set forth above ideas at meeting September 17 and hopes other representatives will be prepared express theirs. Not intended however promote substantive discussions of possible conclusions at September 17–19 meeting, this being reserved for second session following detailed studies.

Embassy should seek establish contact also with representative who will attend September 17 meeting and convey above if he is now in country. Seek elicit indication ideas being considered by government and report. Should other governments indicate interest in proposing establishment Inter-American Bank or international agreement re disposal agricultural surpluses Embassy should discourage thought such proposals could prosper in view clearly established policy of U.S. on both points plus fact both topics on agenda Buenos Aires Economic Conference.

Dulles

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[3] Document 121.
[4] Document 122.

125. Memorandum of a Telephone Conversation Between Milton Eisenhower and the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom), September 6, 1956[1]

SUBJECT

Meeting of President's Commission September 17, 18 and 19

At the direction of Mr. Holland, I placed a phone call to Dr. Eisenhower on Tuesday afternoon, September 4, but was not able to talk to him until this morning due to his absence in New York and my inability to locate him in New York.

I explained to Dr. Eisenhower that Mr. Holland had changed his mind somewhat from his earlier position that the U.S. should simply present various problems to the forthcoming meeting of the President's Commission for the OAS, and that Mr. Holland now felt that it would be advisable for the U.S. to make known its approach to the solution of the problems which it outlines as a means of influencing some of the other governments concerned and in order to avoid, at the subsequent meeting a few months hence, the U.S. having to knock down dozens of unacceptable proposals which might flow into the vacuum left by our failure to mention the approach we plan to take.

Dr. Eisenhower agreed that it would be wise to make suggestions as to the route to be taken to solve the various problems which will be studied by the President's Commission. He likewise proposed that we keep the list of problems down to a manageable number, perhaps four or five or six, and not uncover so many problem areas as to make the study unmanageable.

I have passed on the above views of Dr. Eisenhower to Ambassadors Dreier and Randall and to today's ARA Staff Meeting.

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[1] Source: Department of State, Central Files, 361/9–656. Confidential. Drafted by Rubottom. Dr. Eisenhower was at the State College, University Park, Pennsylvania.

126. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, September 7, 1956.

SUBJECT

Role of the OAS in Atomic Energy Field

Discussion:

In proposing at Panama the formation of a group of presidential representatives to study means of making the Organization of American States (OAS) a more effective instrument, President Eisenhower suggested that the representatives could give early thought to ways of hastening the beneficial use of nuclear forces throughout the hemisphere. Following up this suggestion, and in line with our general policy of strengthening the OAS, consideration is being given, in connection with the September 17–19 meeting of presidential representatives, to the possibility of creating an advisory body within the OAS framework to serve as an organ for consultation among the American republics on atomic energy matters.

The thought behind this proposal is that, if nuclear energy is to be given special attention in the OAS, there should be a competent body to consider atomic energy matters in the OAS framework. The suggested committee would be advisory, not executive, and would develop slowly in the light of experience. Tentatively, the committee might consider and make recommendations on questions which come up on such topics as (1) the need for training centers and the possible location and field specialization of such centers, thus providing for complementary rather than competitive training facilities in Latin American states; (2) the exchange of information; (3) holding of scientific symposia; (4) activities which could be carried out by inter-American specialized organizations; and (5) IAEA programs and activities in the Western Hemisphere.

Opposition has been expressed by senior AEC staff to the idea of having the OAS enter the field of atomic energy because of the lack of competent personnel in Latin America in this field and the consequent danger of rash, politically inspired decisions being made. On the other hand, regional organizations in the atomic energy field have appeared in other major areas of the world and one is almost certain to be suggested by members of the OAS. The wise solution would appear to be to set up an OAS organ of strictly advisory and

[1] Source: Department of State, Central Files, 361/9–756. Confidential. Drafted by Monsma, Krieg, Dreier, and Philip J. Farley, Deputy to the Special Assistant to the Secretary for Atomic Energy Matters, and initialed by Holland.

technical character, the decisions of which would not at this stage seriously embarrass the United States. Once established such a body would constitute a regional group to cooperate with IAEA programs, and might eventually play an even more responsible role as Latin American capacities to deal with the subject of nuclear energy increase.

Recommendation:

That the Department favor the establishment of an advisory atomic energy committee on the technical level within the OAS framework, which might later be supported as a regional organ for planning, coordination, and operations to the extent this proves in the United States interest.[2]

[2] Gerard C. Smith, Special Assistant to the Secretary for Atomic Energy Matters, and Wainhouse concurred with this recommendation. In a memorandum for the files of September 13, Monsma explained why this memorandum was withdrawn prior to action by the Secretary. Monsma wrote that the memorandum was prepared because Admiral Paul F. Foster, Special Assistant to the General Manager of the Atomic Energy Commission, expressed strong opposition to the idea of establishing an OAS Advisory Atomic Energy Committee and, in light of the AEC's opposition, it was thought desirable to get the Secretary's approval. But when Admiral Foster agreed to the formation of an OAS Advisory Atomic Energy Committee following the inter-American symposium on nuclear energy scheduled for the following year at Brookhaven National Laboratory on Long Island, the memorandum was withdrawn at Dreier's suggestion. (*Ibid.*)

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127. Memorandum From the Secretary of State to the President[1]

Washington, September 15, 1956.

SUBJECT

Inter-American Committee of Presidential Representatives

The luncheon which you are giving on Monday, September 17, to the representatives of the Presidents of the Latin American countries who are meeting with Dr. Milton Eisenhower will provide an opportunity for you to express your personal interest in the objective of developing a more effective and useful Organization of

[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Confidential. Drafted by Dreier and sent through Holland to Dulles.

American States (OAS). Following the luncheon the representatives will proceed to the conference site for the opening session.

The Committee of Presidential Representatives is to meet in two sessions: a preliminary meeting from September 17–19, after which it will adjourn probably until February when it will meet again for two to three weeks. The meeting has been planned as an informal, round-table study group to encourage maximum freedom in the exchange of views. The sessions will be closed to the public and the press.

The objective of the preliminary meeting is to permit the representatives to present their ideas on the areas in which the OAS can be made a more effective instrument of economic and social cooperation and to decide on the subject matter of necessary studies and the procedure for making them. The second meeting will be devoted to a review of this preparatory work and the formulation of specific recommendations to be submitted to the Presidents.

There are enclosed some suggested points which you might wish to use in talking with the Latin American representatives. Dr. Milton Eisenhower agrees with these points.

JFD

[Enclosure]

SUGGESTED REMARKS

In talking with the Latin American representatives I suggest you mention the following three points as things you believe they might bear in mind during the preliminary meeting:

1. The task should be to reach agreement on worthwhile activities and objectives for the Organization of American States, rather than merely to recommend increased financial support. Worthwhile activities will involve costs, but we should start by identifying objectives rather than by merely establishing some target for increased contribution to the Organization of American States. Once the objectives are established, we can decide how much should be undertaken, and the United States will be ready to play its part in the program agreed upon.

2. Proposals and recommendations made to the Presidents should be couched in tangible, concrete form. This will make possible their prompt approval and execution by the competent organs of the Organization of American States and avoid the need for further study and discussion.

3. The strengthening of the Organization of American States will have repercussions not only throughout this Hemisphere but also throughout the world. It will increase the sense of unity among the American Republics, and further identify them with the nations

of the free world in the support of the principles of international peace and cooperation.

I also recommend that you ask the representatives of the other countries to communicate personally to their respective Presidents your interest in developing a more effective and useful Organization of American States, and your hope that each of the Presidents will give personal attention to the work of the Committee.

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128. Editorial Note

The first meeting of the Inter-American Committee of Presidential Representatives was held in Washington September 17–19. After attending a luncheon given by the President at the White House on September 17, the representatives of 21 countries were welcomed by Milton Eisenhower, Chairman of the Committee, and Secretary General Mora at the opening session. Milton Eisenhower outlined the plans of the United States Government for joint exploration and development with the American Republics of the beneficial uses of nuclear energy in the hemisphere. His speech is printed in Department of State *Bulletin*, October 1, 1956, pages 511–513.

The meeting, which involved four working sessions in 2 days, was devoted to the identification of specific problems in the economic, social, financial, technical, organizational and administrative, and nuclear energy fields which the representatives believed merited study by the Committee. The problems proposed for study were summarized in a "catalog of proposals" and presented at the September 19 meeting. This document, dated September 19, is designated Doc. 5 (Rev. 2). It is also listed as the Inter-American Committee of Presidential Representatives (CPR) Memorandum 58 and is in Department of State, OAS Files: Lot 60 D 665, CPR Memos, 1–63. A list of the principal Latin American proposals is *ibid.*, President's Committee (to review Activities of the OAS in Economic Fields) October 1956, hereafter cited as President's Committee October 1956.

Chairman Eisenhower made it clear that the catalog of proposals was simply a listing of the suggestions presented and that their incorporation in the document did not imply endorsement of any kind. While the representatives did not feel in a position to express themselves definitely on any of the proposals advanced, the Committee decided to proceed with the study of several problems in the

six fields. These problems are listed in the September 19 draft communiqué approved by the Committee for the press, printed in Department of State *Bulletin*, October 1, 1956, pages 513–514.

The Committee also agreed that, rather than entrust the assignment of priorities and the consolidation of similar proposals to either a secretariat or subcommittee, the representatives themselves would meet again before the meeting in February 1957 and draft the recommendations. They also agreed that the Pan American Union would prepare factual studies, either at its own initiative or at the request of any representative, while Milton Eisenhower would arrange for the establishment of a small secretariat to assist him and all the representatives. This agreement is recorded in the "Summary Record of Fifth Session, Wednesday, September 19, 1956, 3:00 p.m." and contained in CPR Memo 58, Department of State, OAS Files: Lot 60 D 665, CPR Memos, 1–63. A summary of the 2-day meeting of the Committee is in circular instruction CA–2700, September 25. (*Ibid.*, Central Files, 361/9–2556)

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129. Memorandum of Telephone Conversations, Washington, January 15, 1957[1]

SUBJECT

Costs Involved in U.S. Proposals for CPR

PARTICIPANTS

Dr. Milton S. Eisenhower
ARA—Mr. Rubottom
RPA—Amb. Dreier

In a telephone conversation with Messrs. Rubottom and Dreier on Tuesday, January 15, 1957, Dr. Eisenhower stated that he had taken up with the President and the Director of the Bureau of the Budget[2] the question of costs involved in our proposals for the CPR. He had explained that our proposals implied a cost to the OAS of a little more than $5 million per year, and that our share would be an increase of about $3.5 million in our annual quotas. In addition, there would be certain non-recurring costs such as for malaria eradication and atomic energy that would amount to a total of a

[1] Source: Department of State, Central Files, 361/1–557. Official Use Only. No drafter is indicated on the source text.

[2] Percival E. Brundage.

little over $40 million to be used over five years, or an average of $8 million annually for five years.[3] Both the President and the Director of the Bureau of the Budget said they considered Dr. Eisenhower's figure as all right, and that he could go ahead with the proposals so far as the costs were concerned.

Later, Dr. Eisenhower called Mr. Brundage of the Bureau of the Budget on the telephone, and reported to Mr. Dreier that Mr. Brundage had already informed his staff of the conversation with the President.

[3] These estimated costs of the U.S. proposals for the Committee of Presidential Representatives were tabulated and sent to Milton Eisenhower by Dreier in a memorandum dated January 10. Dreier wrote in part: "Decisions will also have to be made at some point as to the precise amount which the United States will be willing to contribute to the special voluntary funds in support of the non-recurring expenditures, and the relationship of our contribution to those of other countries. It has been our thought so far in the Department that the annual costs would be governed by the obligatory quota systems of the various branches of the OAS (U.S. paying up to two-thirds), but that in cases of special programs where completion of a task is of great importance to us, we might find it necessary and desirable to contribute a larger share to the voluntary funds, without regard to a fixed scale of contributions by all OAS member countries." (Department of State, Central Files, 361/1–1057)

130. Circular Telegram From the Secretary of State to All Diplomatic Missions in the American Republics[1]

Washington, January 16, 1957—8:03 p.m.

613. Reference CA–5243[2] and previous re CPR meeting January 28. FYI only. Apparently move under foot led by some Latin American Ambassadors Washington, notably those of Argentina Bolivia Brazil Mexico Uruguay, to take advantage next meeting CPR to make concerted demands on U.S. for attention to such problems as prices of raw materials, terms of trade, reduction of trade barriers, and establishment inter-American financial institution, such as bank or fund, despite awareness U.S. unable accede to such demands at this time and that such topics are largely outside terms of reference proposed by U.S. in setting up CPR (ref. CA–2700)[3] and are not

[1] Source: Department of State, Central Files, 361/1–1657. Official Use Only. Drafted and approved by Dreier.

[2] Not printed. (*Ibid.*, 361/12–2856)

[3] Not printed. (*Ibid.*, 361/9–2556)

covered by draft agenda proposed by Dr. Eisenhower (CA–5243).[4] Not clear at this point to what extent this initiative represents considered opinion of governments or personal initiative Ambassadors here. Various Ambassadors from other countries apparently have reservations this approach. End FYI.

Inform Foreign Minister unless you perceive objection (and in your discretion Representative on CPR if available) that U.S. looking forward to January 28 meeting to crystallize scope of CPR recommendations which will be formulated in detail and approved at subsequent meeting in April. Reaction to Dr. Eisenhower's draft agenda has been generally favorable, it being recognized by many however that topics need to be more clearly defined and limited in scope. Appears to be general tendency to favor concentration on even smaller number important activities.

U.S. believes important contribution to strengthening OAS in usefulness to governments and in minds of peoples of American nations can be made by CPR in various fields but those which offer best opportunities are agriculture, education, public health, fellowships, public information and atomic energy. To illustrate U.S. thinking Dr. Eisenhower intends shortly distribute other members CPR some memoranda outlining programs which U.S. would be happy see accepted.[5] They refer to all topics on Dr. Eisenhower's draft agenda but most important ones deal with subjects mentioned above. SYG OAS has also prepared studies on similar topics which have now been distributed to all members CPR.[6] Outstanding proposal having spectacular significance for entire population American continent would be decision by Chiefs of State to put into effect and

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[4] Milton Eisenhower sent the draft agenda for the January 1957 meeting, which had been approved by the Interdepartmental Policy Group on November 21, 1956, to all members of the CPR on December 21, 1956. In his accompanying letter, he wrote in part:

"The agenda has first of all been limited to what appears to me to be a reasonable and manageable number of points. There appears to be a general feeling that it will be preferable for the Committee to concentrate its recommendations on a relatively small number of subjects rather than dilute its efforts over too large a field. Second, each Representative on the Committee will find in this draft agenda topics on which he has already expressed interest. Third, the topics comprising the agenda suggest concrete activities which the OAS should be able to carry out with reasonable promptness. Finally, the list of topics is one on which, I believe, general agreement could be achieved. It is my thought that the Committee, at the January meeting, would not only decide upon the topics to be included on the agenda, but also draft in more concrete and specific terms the proposals for OAS action on which full recommendations or studies are to be prepared." (*Ibid.*, 361/12–2156) Copies of the draft agenda, labeled CPR Memo 64, are *ibid.*, OAS Files: Lot 60 D 665, CPR Memos, 64–144 and *ibid.*, IO/CIC Files: Lot 73 D 227, CPR Memoranda, 61–100. Documentation on the evolution of the draft agenda is *ibid.*, OAS Files: Lot 60 D 665, President's Committee October 1956.

[5] None printed. (*Ibid.*, CPR Memos, 64–144)

[6] Not found in Department of State files.

provide necessary support for program eliminate malaria from continent in five years through OAS leadership.

To carry out program U.S. thinking in terms following financial plan: Some activities to be included in regular programs of OAS organs to be financed by regular quota system and special large and non-recurring expenditures to be covered by special fund based on voluntary contributions.

U.S. aware some countries have wished take up in CPR number of basic economic problems of inter-American relations such as terms of trade, price stabilization projects and proposals for inter-American bank or similar fund. U.S. appreciates importance attached these subjects by other countries and is prepared as always discuss them in appropriate forum. Does not however consider it will serve any useful purpose to attempt at this stage broaden terms of reference CPR to include basic economic questions which are more appropriately taken up at B.A. Conference or through other adequate channels for study and consideration of complex and difficult problems of economic policy. U.S. has moreover clearly stated its inability at this stage to participate in any inter-American bank.

U.S. accordingly hopes that meeting CPR can concentrate upon constructive consideration of useful projects which will achieve purpose for which CPR established and not be distracted by discussion highly controversial economic questions concerning which no practical solution can be visualized at this time.

FYI. Probably best means handling these problems in event members CPR insist upon presenting them is to have CPR recommend they be given proper attention through appropriate channel such as B.A. Conference or IA–ECOSOC. Department would however prefer avoid any discussion these topics CPR if possible. End FYI.

Department continuing discussions in accordance above with CPR Representatives located Washington and Embassies should of course adapt their approach to situations reflected in any recent conversations which they may have had this subject.

Dulles

131. Circular Telegram From the Secretary of State to Certain Diplomatic Missions in the American Republics[1]

Washington, January 18, 1957—8:34 p.m.

621. You should inform Foreign Office with reference CPR:

1. U.S. looks forward to intensifying program Atoms for Peace in Latin America in which bilateral and multilateral activities will both have a part.

2. U.S. takes position not desirable attempt establish one centralized atomic energy research and training center under OAS sponsorship for several reasons among which are: a) Accessibility several training centers in U.S. including newly announced center at University of Puerto Rico where instruction will be in Spanish language; b) Large capital outlay required ranging up to $10 or $20 million plus heavy operating expenses; c) Evident desire most countries devote resources available for expensive atomic energy work to their own national institutions; and d) Need for variety of atomic energy facilities related to special economic and technical conditions of various countries.

3. U.S therefore instead recommends continued emphasis on bilateral development of atomic energy activities in Latin American countries with added and important function of coordination and leadership through OAS. U.S. envisages establishment consultative committee on nuclear energy under OAS, with small permanent staff which would serve as vehicle for analyzing and summarizing research and training needs in nuclear energy of all member states; encourage those states capable of developing research facilities to coordinate their emphasis on various phases of nuclear science so as to be of greatest possible use to all American states; promote development of less elaborate atomic energy facilities in those countries where such would be of greater use; and stimulate additional scholarship programs to create wider opportunities for training of nationals of all American countries.

4. U.S. would be prepared increase technical and financial support now available through bilateral programs in order make coordinated inter-American program effective. U.S. convinced this represents in long run most desirable approach.

5. In addition OAS could serve usefully in carrying out certain research and training in use atomic energy for agricultural sciences and in health field through competent OAS agencies.

FYI. Above being communicated CPR members in Washington. But important governments also understand our approach in view efforts Argentina promote idea OAS should establish large general-

[1] Source: Department of State, Central Files, 361/1–1857. Official Use Only. Sent to all Diplomatic Missions in the American Republics except Buenos Aires; repeated to Buenos Aires. Drafted and approved by Dreier.

ized research center in Argentina[2] along lines announced Asian Nuclear Research Center in Manila.[3]

FYI. Although statements U.S. proposals on several subjects for CPR now being distributed other members, unlikely statement on atomic energy will be available before CPR meets January 28. End FYI.

Dulles

[2] See footnote 15, *infra*.

[3] Reference is to the selection by the U.S. Government of Manila, the Philippines, as the site of the proposed Asian Nuclear Energy Training and Research Center.

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132. Circular Instruction From the Secretary of State to All Diplomatic Missions in the American Republics[1]

CA–6419 *Washington, February 11, 1957.*

References: CA–2700, September 25, 1956;[2] CA–4825, December 11, 1956;[3] CA–5243, December 28, 1956;[4] CA–5278, December 31, 1956;[5] CA–5760, January 18, 1957;[6] Depcirtel 613, January 16, 1957;[7] Depcirtel 621, January 18, 1957.[8]

The Inter-American Committee of Presidential Representatives (CPR) held its second meeting in Washington, January 28–29, 1957, adjourning one day sooner than anticipated. The Committee accomplished its purpose of drafting an agenda under which proposals for strengthening the Organization of American States (OAS) could be submitted for consideration and possible presentation to the Presidents of the American Republics.

[1] Source: Department of State, Central Files, 361/2–1157. Official Use Only. Drafted by Earl H. Luboeansky, Office of Inter-American Regional Political Affairs, and Dreier, and approved by Dreier.

[2] Not printed. (*Ibid.*, 361/9–2556)

[3] Not printed. (*Ibid.*, 361/12–1156)

[4] Not printed. (*Ibid.*, 361/12–2856)

[5] Not printed. (*Ibid.*, 511.00/12–3156)

[6] Not printed. (*Ibid.*, 361/1–1857)

[7] Document 130.

[8] *Supra*.

The Agenda

This agenda, copy attached, was built around a compromise worked out in informal conversations during the few days immediately preceding the meeting, between the U.S. proposal (see CA–4825, Dec. 11, 1956) and a draft agenda compiled by a group of the Latin American Representatives[9] residing in Washington. The final text was approved unanimously by the full Committee after lengthy discussion and several drafting changes.[10]

The principal differences between the approved agenda and the U.S. proposal are contained in item 1, "Determination of the preferential objectives of economic cooperation within the framework of the OAS". These objectives have to do with practical solutions necessary to promote international trade of the American Republics, stimulation of private investment including elimination of obstacles to its growth, and facilitation of the financing of economic and social projects of a public nature. These agenda topics, in their breadth, go beyond that desired by the United States in its prior negotiations and allow for the introduction of proposals to which the United States for various reasons cannot agree, in that they refer more to basic questions of economic policy than to activities capable of being carried out through the OAS: e.g., stabilization of prices, revision of tax laws, etc.

The inclusion of item number 1 was accepted by the United States on the basis that the wording, as finally drafted, included no reference to any specific proposal to which the United States was opposed, nor did it require the eventual adoption of any specific substantive recommendations to the Presidents. In this connection,

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[9] Not found in Department of State files.

[10] On January 28 at the first of the four working sessions held during the meeting, Milton Eisenhower explained why he had omitted some projects listed in the September compilation (Doc. 5, Rev. 2). He said that no single conference could deal with all the mentioned problems, that some could be better dealt with by the Buenos Aires Economic Conference, and that there were limits to the OAS budget. He stressed that if other proposals involving significant costs were favored, it would be necessary for him to withdraw some of the U.S. proposals, which he said he would be happy to do to achieve the Committee's end. In his summary record of the morning session of January 28, Luboeansky, Executive Secretary of the Secretariat created to handle CPR affairs, reported that Milton Eisenhower requested that the drafting committee be appointed without objection to revise the Latin American group's agenda. Luboeansky wrote that Milton Eisenhower "requested that the drafting committee word the agenda so that specific proposals and projects could be discussed, but draft it in such a way that the agenda itself would not imply a particular position by the Committee or outline the solution to the problem envisaged. He specifically asked that with reference to the Latin American proposed agenda, certain portions not acceptable to the U.S. be changed." (Department of State, OAS Files: Lot 60 D 665, CPR Memo 170, CPR Memos, 145–223) The approved agenda is *ibid., Current Economic Developments:* Lot 70 D 467, Issue No. 512, February 5, 1957, pp. 12–18.

the Representative of the President of the United States made clear that insofar as basic economic questions were concerned—such as prices in international trade, general economic development funds, and double taxation—he would not be able to agree to any substantive recommendations and would be able merely to support inclusion in the CPR's final report of a description of the problems, a recognition of their importance to the American Republics, and a recommendation that continued efforts be made through appropriate channels to achieve satisfactory solutions.

The United States had also opposed inclusion of an agenda item referring to the Inter-American and Pan American Highways. The subject of highways was vigorously pressed by Lic. José Isaac Fábrega, the Panamanian Representative, and supported by a few others. An acceptable compromise formula was also worked out on this subject before and during the meeting.

Interim Committee and Subcommittees

At the closing session, the CPR established an Interim Committee of 21[11] and four Subcommittees to study the various proposals which members may present under the approved agenda items, and to draft a report and recommendations for consideration by the CPR at its next meeting set tentatively to start on April 29, 1957, in Washington. The four Subcommittees and the items assigned to them are as follows:

Subcommittee 1—Agenda Item 1 (Foreign Trade, Private Investment and Public Financing)

Chairman—Ambassador Manuel Tello, Representative of the President of Mexico.

Subcommittee 2—Agenda Item 2 (Nuclear Energy)

Chairman—Ambassador Guillermo Sevilla Sacasa, Representative of the President of Nicaragua.

Subcommittee 3—Agenda Items 3a, 3b, 3d, 3e, 3j, 3k (Health, Agriculture, Industrialization, Trade Statistics, and Inter-American Highway Systems)

Chairman—Ambassador César González, Representative of the President of Venezuela.

[11] This committee was composed of the Presidential Representatives or their designated alternates who resided in Washington.

Subcommittee 4—Agenda Items 3c, 3f, 3g, 3h, 3i (Education, Technical Cooperation, Housing, Public Information, and Social Welfare)

Chairman—Ambassador Adolfo A. Vicchi, Representative of the President of Argentina.

Committee Document 59,[12] of which copies have been sent under separate transmittal slips, lists the Representatives who expressed an interest in serving on each Subcommittee. Any Representative may, however, participate in the work of any Subcommittee at any time. Representatives who are not resident in Washington were authorized to designate deputies or alternates to serve on the Interim Committee and its Subcommittees. Expert advisers may also be assigned to these groups.

Interim Activities (until April 29)

It was decided that Representatives would have until March 15 to submit proposals under the approved agenda items. These should be submitted to the Chairman of the CPR, Room 3103, New State Building, Department of State, Washington, D.C. Estimates of cost of each proposal are to be included as far as possible and the Secretary General of the OAS indicated his willingness to assist in making such estimates. It is expected that the Subcommittees will initiate their work shortly on the basis of such proposals as are already available.

Atomic Energy

Towards the end of the meeting, Dr. Milton Eisenhower stated that copies of all U.S. proposals to the Committee had been distributed except for the one dealing with atomic energy. This he wished to present in person. He thereupon read excerpts embodying the principal ideas expressed in Document 49[13] and had copies in English and Spanish distributed to all members of the Committee.[14] The Document under reference, entitled "Statement on Atomic Energy by Dr. Milton S. Eisenhower, Representative of the President of the United States of America", is being transmitted to the Embassies under separate cover. It will be found to include the points set forth

[12] Reference is to CPR Memo 59. (Department of State, OAS Files: Lot 60 D 665, CPR Memos, 1–63)

[13] Reference is to CPR Memo 49. (*Ibid.*)

[14] A summary of Milton Eisenhower's statement to the Committee is *ibid.*, *Current Economic Developments*. Lot 70 D 467, Issue No. 512, February 5, 1957, pp. 16–18.

in Department's circular telegram 621 of January 18, 1957, plus considerable additional detail and background information.[15]

Action Requested

Unless the Chief of Mission perceives objection, he is requested to deliver to the Foreign Minister (or other appropriate high official) a copy of the agenda approved at the meeting of the CPR on January 29 as well as a copy of the statement on atomic energy made by Dr. Milton S. Eisenhower, Representative of the President of the United States. The Foreign Minister should also be informed of the arrangements for interim work comprising the four Subcommittees, of the date of March 15 established for the submission of all proposals under the agenda, and of the date of April 29 as the opening of the third and final meeting of the Committee.

In connection with item number 1 of the agenda, the Foreign Office should be informed that the U.S. Government has from the beginning maintained that the CPR was not intended as a forum for the consideration of basic economic policy questions, such as prices in international trade, taxation policy, or establishment of new methods of financing economic development. These questions have been debated repeatedly at various inter-American conferences and will no doubt receive further consideration at the Economic Conference at Buenos Aires later on this year. Dr. Eisenhower, as Representative of the President of the United States, repeated this position to the other members of the Committee and made clear that if controversial and difficult subjects of this sort were brought up before the Committee, he would not be in a position to approve any substantive recommendations thereon. However, he would be very glad to include in a report of the Committee to the Presidents (which all hope will be unanimously adopted) a recognition of these problems and of their importance together with a recommendation that continued efforts be made through appropriate channels to work out satisfactory solutions. The Embassy should emphasize this point to the Foreign Minister sufficiently to make it abundantly clear that efforts to use the CPR as a means of changing the policy of the United States with respect to price stabilization schemes, establishment of an inter-American bank or fund, or the adoption of a multilateral program of tax concessions will not be successful. At

[15] On January 29 at the fourth working session, Ambassador Vicchi disagreed with Milton Eisenhower's atomic energy proposal. The Ambassador reiterated his government's position that regional centers and institutions for research and training in atomic energy would be more effective than the national centers proposed by the United States and that such a regional center should be located in Argentina. (Summary Record of Fourth Session, January 29, 1957, CPR Memo 173; *ibid.*, OAS Files: Lot 60 D 665, CPR Memos, 145–223)

the same time, it should be made clear that some proposals of a non-controversial sort under item 1, as well as the remaining agenda items all point to the possibility of having the CPR bring forth recommendations to the Chiefs of State which will successfully achieve its purpose of strengthening the OAS in the economic and social field.

Please report to the Department as soon as possible on the conversations held pursuant to the above instruction.

Dulles

[Attachment]

The agenda which was approved is as follows:

1. Determination of the preferential objectives of economic cooperation within the framework of the OAS:

a) Foreign Trade: Measures tending to promote the international trade of the American Republics. Advancement of practical solutions necessary to this end within the OAS.

b) Private Investment: The stimulation of national and foreign private investment; elimination of obstacles to its growth.

c) Public Financing: Facilitate the financing of economic and social projects of a public nature which are associated with the general and permanent progress of the hemisphere. Study, without interfering in the internal affairs of any country, of the availabilities of public capital in relation to the effective utilization thereof.

2. Nuclear Energy: Creation within the OAS of a commission to study the bases of inter-American cooperation in the field of nuclear energy for peaceful purposes. Establishment or development of institutions or centers of research and training.

3. Broadening and strengthening the activities of the OAS with the following objectives:

a) Eradication, within fixed periods, of the principal diseases that affect the population of the continent, in accord with studies of the Pan American Sanitary Office; and help to the governments and other international entities in the execution of coordinated sanitary programs.

b) Intensification of activities in the field of agriculture through the Inter-American Institute of Agricultural Sciences, with adequate attention to agricultural products of the tropical zones, such as bananas and cacao, and to agriculture and livestock raising in the temperate zones.

c) Active collaboration, with the governments that request it, in the execution of national programs and plans for the improvement of education, giving special attention and assistance to the reduction of illiteracy.

d) The study and presentation of recommendations on sound plans for industrialization, mining, and general economic development.

e) The intensification of statistical studies on foreign commerce and the publication of analytical studies on this subject.

f) Review the Technical Cooperation Program for the purpose of providing increased opportunity for, and intensifying, study and technical training. Extend direct technical assistance to the governments in those fields in which they request it.

g) Cooperation in the formulation and execution of programs to deal with the problems of low-cost housing.

h) The strengthening of the OAS, in its headquarters and through subsidiary offices in the member countries, as an active center for the dissemination of information about the OAS and the member countries. Encouragement of the formation of "national commissions" that could cooperate in similar activities. Facilitation of full participation by private persons of each country in the programs of the Organization and in other activities that contribute to its objectives.

i) Increasing the means at the disposal of the OAS for assisting the governments in the organization and administration of public welfare and social security programs.

j) Completion of the studies being made by the OAS relative to the construction of the road section that will link the Inter-American Highway with the Pan American Highway system.

k) Intensification of the studies of the highway routes of the Gulf of Mexico and of the Caribbean Sea.

4. Administrative Matters:

a) Adaptations in the organization and administration of the OAS that appear desirable in the light of the recommendations of the Committee.

b) Means of financing the activities included in the final recommendations of the Committee.

133. Circular Instruction From the Acting Secretary of State to All Diplomatic Missions in the American Republics[1]

CA–8519 *Washington, April 15, 1957.*

SUBJECT

Activities of the Interim Committee of the Inter-American Committee of Presidential Representatives (CPR)

REFERENCE

CA–6419, February 11, 1957[2]

The Interim Committee of the Inter-American Committee of Presidential Representatives (CPR) at its Second Meeting on April 4, 1957, received the reports of the four Subcommittees formed at the meeting on January 29, 1957. These reports, 25 in all, cover those proposals submitted under the first three items of the approved CPR agenda and group together those proposals of related nature.[3]

A total of 62 proposals were presented by the representatives on the CPR, many shortly before the deadline of March 15th.[4] Among these were some on matters on which the United States from the start endeavored to discourage discussion in the CPR as being inappropriate and not within the terms of reference of the CPR. Proposals basically unacceptable to the United States were presented, for instance, on an inter-American institution to finance economic development, on a system to eliminate double taxation, and on an inter-American housing finance corporation.[5]

The reports, in general, reflect the unanimous approval of those representatives serving on the Subcommittees. In a few instances, however, reservations were made. Principally because of U.S. persistence in the negotiations, no concrete recommendations for action by the OAS were approved on those proposals to which the United

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[1] Source: Department of State, Central Files, 361/4–1557. Confidential. Drafted by Luboeansky and approved by Krieg.

[2] *Supra.*

[3] Not printed. (Department of State, OAS Files: Lot 60 D 665, CPR Memos 64–144 and CPR Memos 145–223)

[4] Not printed. (*Ibid.*, List of Proposals)

[5] In a March 29 memorandum to Rubottom, Randall discussed the difficulties that the economic questions posed for the United States. He reported that in the deliberations of Subcommittee I, the United States remained firmly opposed to the Latin American proposals to create inter-American bank or credit institution, a system to eliminate double taxation, and an inter-American housing finance corporation. Consequently, the Latin Americans decided to write their own recommendations and present them while acknowledging the opposition of the United States (Attachment to March 29 memorandum from Rubottom to Milton Eisenhower; Department of State, Rubottom Files: Lot 59 D 573, CPR Committee on Presidential Representatives)

States could not agree, but in view of the insistence of other Representatives, the United States agreed to a discussion of the problems and to their referral to the OAS, or an organ thereof, for further study. A list of all Subcommittee reports and summary of recommendations is attached as an enclosure to this Instruction.

Perhaps the most significant of the Subcommittee reports was the one on the peaceful uses of nuclear energy. It recommends that an Inter-American Commission on Nuclear Energy should be established to develop a coordinated plan for research and training; that the Pan American Sanitary Organization should carry on activities involving the application of nuclear energy in the field of health and safety; that the Inter-American Institute of Agricultural Sciences should utilize nuclear energy applications in the field of agriculture; and that the Pan American Union should prepare appropriate studies concerning nuclear energy legislation. This report suggests that the proposals (of Argentina and Brazil) for the establishment of an inter-American regional center for nuclear research and training be referred to the proposed Inter-American Commission on Nuclear Energy for consideration by it when in its judgment it is deemed desirable. This latter provision satisfies current U.S. policy considerations which favor bilateral arrangement for U.S. participation in the establishment in Latin American countries of nuclear energy research and training centers.

Other important recommendations contained in the Subcommittee reports submitted to the Interim Committee are one calling for the eradication of malaria in the Americas within five years, another for the strengthening of Organization of American States activities in the field of agriculture (on which Brazil made basic reservations), and a third for a program of 500 scholarships yearly as a regular activity of the OAS. Cuba, Honduras and Mexico made reservations, based principally on the cost involved, on the report covering the proposals of the United States and Chile for an increased public relations program for the OAS.

At the April 4th meeting of the Interim Committee two working groups were formed, one to consider those proposals on administrative, organizational, and financial matters falling under Item 4 of the approved agenda, and a second to consolidate all reports on the proposals into a draft report of the CPR to the Presidents. Consideration will be given by the latter group to the form in which the various proposals and the Subcommittee reports thereon will be presented in the final report of the CPR. Though substantive discussion on the report may be undertaken at the April 22nd meeting of the Interim Committee, no final decisions will be made until the meeting of the Committee itself starting April 29th.

At that time a final report to the Presidents will be approved and it is expected some attempt will be made to resolve the objections expressed in the several reservations to the Subcommittee reports. In the interim before the April 29 meeting, the representatives will have the opportunity to present the reports to the Governments for study and it is conceivable that recommendations for changes in the substance of the draft report may be made.

Herter

[Attachment]

Description of Report	*Committee Document Number*
Proposal on "Broadening of the Statistical Studies of the Organization of American States (OAS) on Foreign Trade, and the Analysis and Publication Thereof"	SC–1/3 (Approved)
Proposal Concerning the Holding of Meetings of High Officials Connected with Economic Matters	SC–1/4 (Approved)
Proposal Relating to the Measures for Promoting the International Trade of the American Republics (Inter-American Economic and Social Council [IA–ECOSOC][6] to call meeting of experts to make study)	SC–1/6 (Approved)
Proposal Relating to the "Preparation of Specific Economic Development Plans Acceptable to Banks" (IA–ECOSOC to organize committee to consider establishment of agency to make studies of "bankable" plans)	SC–1/8 (Approved)
Proposal Concerning the "Establishment of Practical Procedures for Facilitating the Solution of American Foreign Exchange Problems" (Council of the Organization of American States [COAS] to submit matter to Buenos Aires Conference for further study)	SC–1/9 (Approved)
Proposal Concerning the Financing of Housing of Social Interest (IA–ECOSOC to be provided funds to make study on this subject proposed by Res. XXXVI of 10th Inter-American Conference.)	SC–1/10 (Approved)

[6] These and following brackets are in the source text.

Description of Report	*Committee Document Number*
Proposals Relating to the Financing of Economic Development	SC–1/11 (Approved)
(OAS, through appropriate organs, to continue study)	
Proposals Relating to Maritime Freight Rates	SC–1/12 (Approved) Revision 1
(IA–ECOSOC to continue study)	
Proposals Relating to Double Taxation	SC–1/13 (Approved) Revision 1
(OAS, through competent organs, to make study)	
Proposals Concerning an Active Role for the Organization of American States in the Peaceful Application of Nuclear Energy	SC–2/4 (Approved)
(1. Inter-American Nuclear Energy Commission [IANEC], establishment of 2. Pan American Sanitary Organization [PASO] to undertake activities concerned with use of radio isotopes for medical purposes 3. Pan American Union [PAU] to prepare studies on nuclear energy legislation 4. Inter-American Institute of Agricultural Sciences [IAIAS] to use isotopes in agriculture 5. Referral to IANEC for study of regional center proposals)	
Proposal Concerning a Program for the Eradication of Malaria in the Americas (in 5 years)	SC–3/2 (Approved)
Proposals Concerning the Strengthening of Activities in Agriculture	SC–3/3 (Approved)
(1. Change in Convention of IAIAS to modify system of financial support and to raise level of representation of Board of Directors 2. Expansion of program and facilities of IAIAS)	
Proposal for the Establishment of a Program for the Study of Industrialization	SC–3/4 (Approved)
(Expansion of studies and activities of PAU—Dept. Eco & Soc Affairs—in field of industrialization)	
Proposal Relating to the "Plan for a System of Statistical Information Concerning Agricultural Products"	SC–3/5 (Approved)
(To strengthen activities of OAS to provide adequate system of agricultural statistics)	

Description of Report	*Committee Document Number*
Proposal Concerning the Completion of the Studies on the Construction of the Section of the Pan American Highway in the Darién	SC-3/6 (Approved)
Proposal Concerning the Establishment of an Institute for the Study of the Utilization of Tropical Raw Materials (COAS take steps to have studies made of feasibility of establishing institute to study uses of tropical raw materials)	SC–3/11 (Approved)
Proposal Concerning the Establishment of a Study and Research for Food and Nutrition Problems (Expansion and coordination of activities of OAS directed toward solution of problems of food deficiency)	SC–3/12 (Approved)
Proposal Relating to Increased Control and Eradication of Communicable Diseases in the Hemisphere (Continue and expand activities of PASO in combating communicable diseases)	SC–3/13 (Approved)
Proposals Relating to Inter-American Cooperation in the Field of Housing of Social Interest and Town Planning Continue and expand activities of Inter-American Housing and Planning Center)	SC–4/2 (Approved)
Proposals Relating to Public Education (Expansion activities in cooperation with Governments to reduce illiteracy and improve education systems)	SC–4/3 (Approved)
Proposals Concerning the Public Relations of the OAS (Expansion public relations activities of OAS including opening of branches in all member countries)	SC–4/5 (Approved)
Proposals Concerning Services of the OAS in the Field of Social Security (Expansion of these services particularly in field studies and research, technical advice, training courses and technical information services)	SC–4/6 (Approved)
Proposals Concerning the Technical Cooperation Activities of the OAS (1. Technical Cooperation Program be made a regular activity of OAS and be expanded 2. Expansion of technical assistance activities)	SC–4/7 (Approved)

Description of Report	*Committee Document Number*
Proposal Relating to the Scholarship Program of the OAS (Initiation of a program of 500 scholarships yearly as regular activity of OAS)	SC–4/8 (Approved)
Proposal for the Establishment in the OAS of an Inter-American Center for Technical Research and Training of Personnel in Transportation (COAS initiate study of possibility of establishing an Inter-American Center of Technical Research and Training in Transportation)	SC–4/9 (Approved)

134. Report From the Inter-American Committee of Presidential Representatives to the Chiefs of State of the American Republics[1]

Washington, May 8, 1957.

I. SUMMARY OF THE RECOMMENDATIONS

General Comments

The recommendations of the Inter-American Committee of Presidential Representatives to the Chiefs of the American States on the problems submitted to it for consideration vary, of course, with the specific characteristics of the problems to which they relate. Nevertheless, all the recommendations—as do all the problems that the Member States brought up for discussion—have one common denominator, namely, their essentially hemispheric character. It has

[1] Source: Department of State, OAS Files: Lot 60 D 665, Report to the Chiefs of State of the American Republics. The third and final meeting of the Inter-American Committee of Presidential Representatives began on April 29 in Washington. The Committee considered and endorsed the 27 recommendations submitted by the Interim Committee and drafted the final report. On May 8, it announced the completion of its work and signed the letters which transmitted to the heads of state the report on the Committee's recommendations for strengthening the Organization of American States. The minutes and documentation on this final meeting are *ibid.*, CPR Memos 145–223, President's Committee (to review activities of OAS) October 1956, and CPR Summary Minutes, 2d Meeting Jan. 28–29, 1957.

The report consisted of the text of the letter addressed to each of the Presidents of the American Republics transmitting the reports, an introduction explaining the origin and purpose of the committee, a summary of the 27 recommendations, brief

been recognized that the needs and desires, and even the ills from which the peoples of America suffer, are not the needs, the desires, or the ills of each nation separately but of all of them. This is the spirit that has pervaded the Committee's deliberations.

All the representatives have kept in mind the fact that Pan American organizations cannot take away from the Member States the responsibility for attacking problems which each one faces individually, nor should they attempt to do so, even though the problems are of general character. Members of the Committee are convinced, however, that inter-American cooperation will increase the effectiveness of local programs.

In Part I of the present report, the Committee describes in general terms the nature of the problems it has considered and summarizes the recommendations for their solution. Part II contains the detailed reports on the proposals submitted.

In those cases in which the agencies to take the suggested action are not specified, it would be the responsibility of the Council of the Organization of American States to make a determination in that respect. Except where specifically stated, the recommendations of this Committee do not involve changes in the structure of the Organization of American States.

The Committee has given special attention to the question of cost. Its purpose in determining the cost estimates for each recommendation was to arrive at an approximate figure on the basis of which the Council of the Organization of American States and other inter-American organizations could later prepare the definitive budgets. The Committee's firm policy has been to reconcile the objective of reducing expenditures to a minimum, with the purpose of maintaining the effectiveness of the programs it hopes will be carried out. A recapitulation of the financial implications of the Committee's recommendations is included as Part III of this report.

In the light of the comments contained in this report, the twenty-one Representatives submit the following recommendations for the consideration of their Chiefs of State.

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sections on specific programs and suggested actions with respect to them, and a budgetary summary. Only the summary of the recommendations is printed here. The complete text of the report was not published until May 25, 1957.

The recommendations are printed in *Annals of the Organization of American States*, vol. IX, 1957, pp. 167–178. A general summary of the recommendations is in Department of State *Bulletin*, June 24, 1957, pp. 1015–1016. The statement made by President Eisenhower in response to this report on May 26 is printed in *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1957* (Washington, 1958), pp. 415–416.

Economic and Financial Matters

Since the first International Conference of American States in 1890, when it was agreed to establish the International Union of the American Republics for purposes related principally to the commerce and industry of the American countries, a constant interest in working out coordinated solutions of the economic problems confronting all the countries of America has been recognized. This interest increased during World War II and gathered impetus at the Ninth International Conference of American States, at which the Charter of the Organization of American States was adopted and the Economic Agreement of Bogota was signed.[2] It has been a growing desire of the American Republics to have inter-American cooperation in these fields of activity of their peoples reach the same high level as their cooperation in other fields of endeavor.

The Committee studied the same economic problems that have long been the subject of so many inter-American discussions, particularly those concerned with economic development and the promotion of trade. The Committee concluded that there are many fields in which the activities of the Organization of American States relating to economic matters can and should be increased.

The Committee proposes that the activities of the Organization of American States in agriculture be strengthened and expanded. This would include: (1) amendment of the Convention on the Inter-American Institute of Agricultural Sciences so that its Board of Directors will be composed of the Directors General of Agriculture or of other officials of equal rank in the Ministries of Agriculture, and modification of the system of financial support; (2) transfer to the Institute of the present agricultural training activities of the Technical Cooperation Program of the Organization of American States; (3) expansion of the program of the Institute especially in the field of agricultural activities (establishment of the Regional Temperate Zone Center) and in research into the diseases of banana and cacao (establishment of the Regional Center for Study of the Diseases of Banana and Cacao) and for this purpose to provide the necessary installations; (4) strengthening of the action of the competent agencies of the Organization of American States so that they may cooperate with the Governments of the Member States in achieving an adequate system of statistical information on agricultural products; (5) utilization of nuclear energy in agriculture. The desirability of participation in the Institute by the greatest possible

[2] The Ninth International Conference of American States was held at Bogotá, March 30–May 2, 1948. For documentation on U.S. participation, see *Foreign Relations*, 1948, vol. IX, pp. 1 ff.

number of Member States of the Organization of American States is pointed out.[3]

With respect to the development of industry, the Committee recognized that the Pan American Union in its Department of Economic and Social Affairs should be able to provide the Governments of the Member States of the Organization, as a part of its services, with information or advice on industrialization and industrial statistics. It was felt that the Pan American Union should also coordinate its activities with those of other international organizations in this field.[4]

To assure to the countries of the Hemisphere an opportunity to know and put to use the wealth of the natural resources of the tropics, the Committee recommends that the Council of the Organization take the necessary steps for consideration of the possibility of establishing an institute to study the utilization of those resources.[5]

Convinced that the over-all development of a nation is inevitably linked with its communication and transportation system and well aware of the basic shortages in this field from which most of the American Republics suffer, the Committee studied carefully the problem of the transportation systems of the Americas. It recommends that the Council of the Organization of American States consider the possibility of establishing an inter-American center for technical research and training in transportation, as a regular activity of the Organization.[6]

The Committee, recognizing the importance to all the American nations of the construction of the section of the Pan American Highway known as the "Darién Bottleneck," recommends that instructions be given to the delegates to the Seventh Pan American Highway Congress to prepare a plan to complete the studies concerning the construction and financing of that section of the Highway.[7]

Great importance was attached to the subject of financing, both public and private, of economic development. In particular the Committee realized that the idea of creating a finance institution exclusively for this Hemisphere, which would concern itself especially with problems of economic development of the Latin American countries, has been a matter of constant concern to those nations.

The Latin American Representatives, while recognizing the benefits that existing international financial organizations have been giving to the economic development of some nations, expressed the

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[3] Recommendations Nos. 1, 2, and 24. [Footnote in the source text.]
[4] Recommendation No. 3. [Footnote in the source text.]
[5] Recommendation No. 4. [Footnote in the source text.]
[6] Recommendation No. 5. [Footnote in the source text.]
[7] Recommendation No. 6. [Footnote in the source text.]

firm opinion that these organizations do not cover the entire field, nor are they sufficient to help all the Latin American countries to achieve an adequate rate of investment in projects considered essential to their economic improvement and the raising of their standard of living. The Latin American delegates also believe that an inter-American credit agency working in close harmony with existing international finance organizations not only would provide a new source of credit but also could deal with the specific problems relating with greater flexibility and specialized knowledge to the development of each of the Latin American nations. The Representative of the United States of America maintained that the resources of existing institutions are adequate to meet effective demand, and, therefore, that the establishment of new credit institutions would not be justified, since greater progress could be made by using those already in existence.

In view of the importance of this matter, the Committee recommends that the Organization of American States, through its appropriate organs, including the Economic Conference of the Organization of American States, continue, with the urgency that the case merits, to study the problems relating to the financing of economic and social development in the Hemisphere, as well as possible solutions to these problems. This study should give due consideration to the proposals submitted to the Committee, and to those submitted at other inter-American meetings, as well as to discussions held on them and those which may be held in the future. The purpose of the study should be to arrive at concrete conclusions.[8]

The Committee also recognizes that the countries in the process of economic development should prepare specific "bankable" projects that will give them a clear idea of the nature of the problems to be solved. It also realizes that many American nations find it difficult to prepare such projects, owing to the fact that the task requires theoretical and practical knowledge, as well as experience, that is not always available in the country concerned.

The Committee recommends the creation of an ad hoc inter-American technical committee which, at the request of each nation, and on a reimbursable basis, would assist it in the preparation of specific "bankable" projects for economic development.[9]

The problem of stimulating the flow of private investment capital to accelerate the economic and social development of the American Republics also was fully discussed. The progress of insufficiently developed American countries demands a considerable flow

[8] Recommendation No. 7. [Footnote in the source text.]
[9] Recommendation No. 8. [Footnote in the source text.]

of private foreign capital to supplement national savings. To facilitate the flow of private capital to the insufficiently developed nations of the Hemisphere, the Committee recommends that the American Governments, by means of bilateral or multilateral agreements, as well as their own tax legislation, adopt the measures necessary to contribute to the elimination of obstacles to the movement of private capital; and that the Organization of American States study measures that would tend to increase the international flow of private capital.[10]

With a view to the expansion of the international trade of the American Republics as a factor essential to their development at a satisfactory rate, and to the reduction or elimination of the factors which obstruct it, the Committee considered that it is necessary to bring the forces of inter-American economic cooperation to bear upon this problem. All the proposals submitted have emphasized the urgency of adopting practical measures to achieve this expansion. The Committee recommends that the Representatives on the Inter-American Economic and Social Council be instructed to have the Council call a meeting of high-ranking governmental experts during the first quarter of 1958, to study the main aspects of the international trade of the American Republics and to recommend ways in which that trade might be stimulated.[11]

Regarding this matter, the Committee recognized that maritime and river freight rates have a fundamental effect on not only the cost of the commodities traded, but also on the competitive standing of the nations' exports. A coordinated policy must, therefore, be developed to obtain the lowest possible maritime and river freight rates which are, at the same time, compatible with adequate and efficient services. In that sense, the Committee recommends to the Governments several measures designed to achieve these ends. Similarly, it recommends that the Inter-American Economic and Social Council continue its work of analyzing the various factors determining maritime and river freight rates in inter-American trade, with a view to ascertaining whether rate differences exist which cannot be justified by normal trade factors or by other valid economic reasons.[12]

The Committee agrees that, in order to make useful studies of international trade and to find a means of expanding it, it is essential to have uniform, complete, and timely statistics. To this end it

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[10] Recommendation No. 9. [Footnote in the source text.]
[11] Recommendation No. 10. [Footnote in the source text.]
[12] Recommendation No. 11. [Footnote in the source text.]

recommends expansion of the statistical services of the Pan American Union.[13]

In view of the importance for the economic and social development of the Latin American nations of the availability of adequate foreign exchange, especially as regards the need to accelerate the rate of such development, and also because of the close connection between this topic and various economic aspects of the agenda of the Economic Conference of the Organization of American States, the Committee recommends that this subject be treated in that Conference.[14]

The Committee believes that it would be of benefit to the American Republics to have a mutual exchange of information relating to their present and future economic situation, in order to provide a more definite idea of the economic problems that affect them and of the most practical policies which might be adopted to solve them. The Committee recommends that the Organization of American States convoke periodically, for this purpose, meetings of high governmental officials who are experts in economics.[15]

Public Health and Social Security

One of the fields offering the greatest scope for strengthening the cooperative action of the American Republics is that of public health. After having considered in detail several aspects of this problem, the Committee reached the conclusion that the eradication of malaria is the most important sanitary problem confronting the American Hemisphere, not only from the viewpoint of health, but also because of its repercussions on the economic development and social welfare of the people.

The studies presented to the Committee make it possible to assure that in a brief period, perhaps of five years, it is possible to eradicate malaria from America if a continent-wide program is adopted and is carried out systematically and urgently.

Therefore the Committee recommends that the program of total eradication of malaria in America, which has already been planned by the Pan American Sanitary Bureau, be carried out, and that every effort be made to meet the deficit resulting from its total cost.[16]

The Committee also recommends that the Chiefs of State support the programs elaborated by the Pan American Sanitary Bureau with respect to the control and eradication of communicable diseases.[17]

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[13] Recommendation No. 12. [Footnote in the source text.]
[14] Recommendation No. 13. [Footnote in the source text.]
[15] Recommendation No. 14. [Footnote in the source text.]
[16] Recommendation No. 15. [Footnote in the source text.]
[17] Recommendation No. 16. [Footnote in the source text.]

In view of the serious consequences which food shortages have on economic development and general welfare in vast areas of America, the Committee recommends that support be given to the activities on nutrition carried out in America, by the several international organizations that are concerned with this problem.[18]

The Committee has noted with concern the increasing shortage of housing of social interest, and considers that it is of urgent necessity to promote urban and rural planning. With a view to increasing to the greatest possible degree inter-American cooperation for the solution of these problems, the Committee considers it especially important to ensure, by means of the measures recommended, the permanence of and a regular source of income for the Inter-American Housing Center.[19]

Besides, it is recommended that the Inter-American Economic and Social Council be provided with the funds necessary for executing studies on the effect which the creation of a Private Inter-American Bank for the Promotion of Housing of Social Interest would have on the coordinated solution of the problem of housing in the Hemisphere.[20]

Upon considering the subject of social security and social welfare, the Committee recognized that in some cases it has not been possible to initiate national systems of social security, and in other cases it has not been possible to make uniform progress, because, among other reasons, the different economic and social conditions of the American countries required the adaptation of the respective social security plans to the special characteristics of each particular region.

With respect to social welfare, it was realized that the greatest urgency should be given to the achievement of better coordination among the existing programs and institutions, greater attention to the needs of the rural zones, improvement in the administration of public and private institutions offering services to the needy, more emphasis on preventive activities, and better training of professionals in the field of social welfare.

The Committee recommends that in order to cope with the social problems which exist in America today the activities of the Organization of American States in the fields of social security and social welfare should be strengthened.[21]

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[18] Recommendation No. 17. [Footnote in the source text.]
[19] Recommendation No. 18. [Footnote in the source text.]
[20] Recommendation No. 19. [Footnote is the source text.]
[21] Recommendation No. 20. [Footnote in the source text.]

Education and Technical Cooperation

The Committee recognizes that despite the efforts which the American Republics are exerting to plan and execute programs which offer the benefits of universal free and obligatory education, there still exists the serious problem of the elimination of illiteracy as well as other problems, such as the necessity of improving and increasing the number of teachers, of providing primary education for all, of improving adult education, and increasing the number and improving the quality of the schools.

To meet the serious problems of education in America, the Organization of American States should collaborate actively with the Governments in the preparation and execution of their respective national plans. To this end, the Committee recommends an increase in the information and publication services, an increase in consultatory and advisory services, and the holding of national seminars and technical meetings. To guarantee an effective program and to avoid any duplication of efforts in the field of education, it is suggested that the Secretary General, assisted by independent experts, make a periodic evaluation of the program. Likewise, the Organization should coordinate its activities with the various national, bilateral, and multilateral programs.[22]

In addition to the necessity of finding solutions to the common problems related to education in the American countries, the Committee has recognized the importance of cultural exchange among them to aid in the advancement of their economic and social development. It recommends that the Organization initiate a regular program of 500 scholarships independent and apart from those which are at the present offered by the governments and the Organization through its own programs and those of its specialized organizations. This program will have, among other objectives, that of supplementing the technical cooperation activities of the Organization.[23]

In the preceding pages mention has been made repeatedly of the desirability or strengthening the inter-American system through technical cooperation and assistance. Experience over the six years in which the Organization of American States has carried on its Program of Technical Cooperation has shown the value of that program, but has proved, as well, that its capacity to aid the governments of member states is clearly limited. It is necessary, therefore, to increase the capacity of the Organization of American States to furnish technical cooperation and assistance.

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[22] Recommendation No. 21. [Footnote in the source text.]
[23] Recommendation No. 22. [Footnote in the source text.]

The Committee recommends that the Program of Technical Cooperation of the Organization of American States be expanded and given greater flexibility and that the Economic Conference at Buenos Aires consider the possibility of converting it into a regular and continuing activity of the Organization.

With regard to direct technical assistance, it recommends that the General Secretariat of the Organization of American States increase services of this type to the member states, utilizing its personnel towards this end, and that expenses involved be paid, as a general rule, by the requesting governments.[24]

Nuclear Energy

Among the subjects submitted for the consideration of the Committee that relative to the utilization of nuclear energy for peaceful purposes, and possible inter-American collaboration in that field, was of particular interest because of the possibilities that it holds for the well-being of the Hemisphere. The accomplishments already achieved in the application of nuclear energy for peaceful purposes reveal the hitherto unforeseen possibilities it holds for the future and the role which it can play in the development of society.

The Committee recognizes that the application of nuclear energy is presently in various stages of development in the American Republics. While some have been able to carry out relatively advanced work, in the majority of them activity in the nuclear field is still in its initial phase.

In the opinion of the Committee this matter constitutes one of the fields most appropriate and important for inter-American collaboration, and, consequently, is an activity in which the Organization of American States should play a part. For this purpose, the Committee recommends that there be established an Inter-American Nuclear Energy Commission which would serve as a center for consultation on matters relating to the peaceful application of nuclear energy, lend assistance to the American Republics in the development of a coordinated plan of research and training in nuclear matters, promote the coordination and augmentation of the national programs on nuclear energy to meet the needs of the inter-American community, and, once it has finished the program set forth for the first stage of its work, it might study the advisability of the creation of a Specialized Organization of the Organization of American States that might, in the future, replace it.

The Committee recommends that the Pan American Sanitary Organization encourage the use of radioisotopes or other ionizing radiations in medical research, diagnosis and therapy; and that the

[24] Recommendation No. 23. [Footnote in the source text.]

Pan American Sanitary Organization draft practical regulations for the safe handling of radioactive material. The Committee likewise recommends that the Inter-American Institute of Agricultural Sciences utilize nuclear energy in the field of agricultural research.

The Committee has taken special note of the proposals and offers relative to the establishment of an inter-American regional center for investigation and training in nuclear matters. In view of the complexity of the problems which this question presents, the Committee considers it preferable to refer this matter and the related documents to the proposed Inter-American Nuclear Energy Commission for its consideration when opportune.[25]

Public Relations

The recommendations of this Committee would only partially achieve their ultimate objective—which is to make the Organization of American States a more effective organization—if they do not succeed in making the principles and objectives of the Organization known to the public. The Committee, therefore, suggests the review and, if called for, the expansion and strengthening of the public relations activities of the Organization of American States and the establishment of local offices in all the American republics. Moreover, the Organization of American States should stimulate private participation in its activities and encourage the governments to establish National Committees for the Organization of American States.[26]

Organization Affairs

The various recommendations of this Committee cannot be carried out without the effective operation of the Organization in all its parts.

Projects approved by the Committee point up the possibility of a considerable increase in the activities of the Organization of American States and, therefore, in the budget of the organs concerned. In order to make the maximum use possible of local currencies to finance activities of the Organization, the Committee recommends: that, in considering expenditures related to the activities of the Organization, the currencies of the countries in which the activities take place, or in which expenditures are made, be used to the fullest extent possible; and that to the extent possible the Organization of American States and other inter-American organizations establish their centers and spread their activities among all the

[25] Recommendation No. 24. [Footnote in the source text.]
[26] Recommendation No. 25. [Footnote in the source text.]

member states with due regard for the principle of geographic distribution.[27]

In regard to the Inter-American Economic and Social Council, the Committee considered that this Council has not been able fully to achieve the purpose and carry out the functions assigned to it by the Charter of the Organization of American States. In view of this fact, the Committee recommends that the Inter-American Economic and Social Council urgently study and put into effect immediately all feasible measures to improve its operation, and that the governments in forming their delegations to the Council in accordance with the terms of Article 65 of the Charter of the Organization, keep always in mind the necessity of strengthening the membership of the Council and in this manner making its work broader and more effective.

In addition, the Inter-American Economic and Social Council should study the possibility of adopting measures permitting the governments to seek solutions in the Council for the economic and social problems which, in the judgment of that organ, can properly be solved through consultative means; and that the Inter-American Economic and Social Council make appropriate recommendations based on such study. Moreover, without prejudice to the programs it has under consideration and the recommendations that have been approved by this Committee, the Inter-American Economic and Social Council should give special attention to the following matters: trade in basic products of interest to the producer countries of the Continent, movement of private capital, transportation, cooperatives and social security.

The Committee recommends also that, in order to achieve the above-mentioned objectives, the services of the Department of Economic and Social Affairs which serves as the Secretariat of the Inter-American Economic and Social Council, be expanded and improved.[28]

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[27] Recommendation No. 26. [Footnote in the source text.]
[28] Recommendation No. 27. [Footnote in the source text.]

THE ECONOMIC CONFERENCE OF THE ORGANIZATION OF AMERICAN STATES, HELD IN BUENOS AIRES, ARGENTINA, AUGUST 15–SEPTEMBER 4, 1957[1]

135. Editorial Note

At the Ninth Inter-American Conference of American States, held in Bogotá, Colombia, March 30–May 2, 1948, it was agreed that an economic conference of the Organization of American States should be held in the last quarter of 1948 at Buenos Aires, and that the Inter-American Economic and Social Council (IA–ECOSOC) should fix the date, propose the agenda, and prepare background studies on economic issues for the Conference. The Conference was not held in 1948, however, and for various reasons it was postponed in succeeding years.

During the latter part of 1955, it appeared that the Conference would convene late the following year. In a memorandum to the Chairman of the Council on Foreign Economic Policy (CFEP), Joseph Dodge, dated November 11, 1955, Under Secretary of State Herbert Hoover, Jr., discussed preparations for the Conference and recommended the establishment of a Subcommittee of the Council to develop for Council consideration the United States position for the forthcoming Conference. Hoover also recommended that the Assistant Secretary of State for Inter-American Affairs, Henry F. Holland, serve as Chairman of the Subcommittee. (Department of State, Central Files, 365/11–1455) In a memorandum to Hoover, dated November 30, Dodge stated that at its meeting on November 22 the CFEP had approved the Under Secretary's recommendations. (*Ibid.*, 100.4–FEP/11–3055) The Subcommittee's initial meeting took place at the Department of State on December 28, 1955, but the Conference was postponed again, and the Subcommittee's meetings were discontinued until May 1957, when a date for the Conference was

[1] For additional information and documentation on the Conference, see *Economic Conference of the Organization of American States, Buenos Aires, Argentina, August 15–September 4, 1957: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 6679, Washington, 1958); hereafter cited as *Economic Conference: USDel Report.*

finally set. By that time, Acting Assistant Secretary of State for Inter-American Affairs Roy R. Rubottom, Jr., had succeeded Holland, who resigned from the Department in September 1956, as Chairman of the Subcommittee.

The Subcommittee was originally comprised of representatives from the Departments of Agriculture, Commerce, Defense, Interior, State, and the Treasury, the Export-Import Bank, the Office of Defense Mobilization (ODM), and the International Cooperation Administration (ICA). It was responsible for reviewing policy on each issue that was expected to arise at the Conference, and also giving direction and guidance to the Interdepartmental Committee on Economic Affairs (EA).

The EA Committee, chaired by James C. Corliss, Acting United States Representative in the IA–ECOSOC, had met as early as June 1955 to review a report concerning a draft of a General Inter-American Economic Agreement prepared for the Conference by an IA–ECOSOC working group. The Committee had responsibility for preparing memoranda on agenda subjects and preliminary position papers for the Conference. These memoranda were forwarded to the CFEP Subcommittee for review. After review and approval, they became the basis for formal position papers, also prepared by the EA Committee, for use by the United States Delegation at the Conference. The position papers were designated EA–1 through EA–33, and indexed according to Conference agenda items.

In addition to these two interdepartmental committees, a Working Group on the Economic Conference was established in the Bureau of Inter-American Affairs (ARA) within the Department of State. This group served as a "sounding board" for the planning for the Conference, and also as a means of channeling ideas and proposals to the EA Committee.

The memoranda, notes, minutes of meetings, correspondence, position papers, and other documents generated by the Subcommittee, the EA Committee, and the ARA Working Group are *ibid.*, OAS Files: Lot 60 D 665, Boxes 175–178. Additional documentation is *ibid.*, Central Files 100.4–FEP and 365.

At Buenos Aires, the United States Delegation set up an 11–member Steering Committee, comprised of Senior Advisers and the committee spokesmen on the 5 working committees of the Conference. The Steering Committee met daily from August 19, 1957, to discuss progress in the working committees, and to coordinate United States actions with respect to the working committees. Assistant Secretary Rubottom served as Coordinator of the Delegation and as liaison between it and the Steering Committee.

The documentation generated by the United States Delegation to the Conference fell into six main categories, identified by sym-

bols: 1) the USDel/ series includes all documents, except the ECOAS series, dealing with substantive matters pertaining to the Conference; 2) the USRPT/ series was used for reports of the delegation members on meetings of committees, subcommittees, and working groups of the Conference; 3) the ECOAS/ series contains position papers, numbered according to the agenda items; 4) the USPR/ series identified press releases issued by the delegation; 5) the USAdm/ series related to physical arrangements, travel, and general information, usually of an administrative nature, for delegation members; and 6) the USOD/ series designates the Order of the Day for the delegation. All of these series are *ibid.*, OAS Files: Lot 60 D 665.

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136. Summary Notes of a Meeting of the Subcommittee on the Buenos Aires Economic Conference, Department of State, Washington, December 28, 1955, 11:30 a.m.[1]

PARTICIPANTS

State:
Mr. Holland (Chairman)
Mr. Kalijarvi
Ambassador Randall
Mr. Sanders
Mr. McAuliffe
Mr. Kirk
Mrs. Mulliken

Agriculture:
Mr. Morse

Commerce:
Mr. McClellan
Mr. Poirier

Defense:
Mr. Kenny

Export Import Bank:
Mr. Arey
Mr. Rowntree

ICA:
Mr. Atwood

Interior:
Mr. Imhoff

ODM:
Mr. Cooley

Treasury:
Mr. Overby
Mr. Harley

Date of Buenos Aires Conference

The position paper on this subject was approved. In brief, it was agreed that Ambassador Randall should state in the Inter-American Economic and Social Council that the US is prepared to participate

[1] Source: Department of State, OAS Files: Lot 60 D 665, BAEC Memos. Confidential. Apparently drafted by Sanders. A covering transmittal sheet addressed to the CFEP Subcommittee, dated January 11, 1956, and designated BAEC Memo 5, is not printed.

in the Conference during the latter part of 1956, as contemplated in the final declaration at the Rio Economic Conference,[2] if this timing is satisfactory to the host government and to the other countries. The Ambassador should point out, however, that since US elections occur in the fall of 1956, there would be the disadvantage that the US Delegation to the Conference might not be speaking for the succeeding Administration. If the other governments attach importance to this consideration, or if for any other reason they should desire to postpone the Conference, the Ambassador should agree to a later date, in 1957, acceptable to them.

Mr. Overby pointed out that we should try to avoid conflicts with the International Monetary Fund and International Bank meetings which are usually held in September.

Summary of Policies Announced at Rio

Mr. Holland urged all Sub-Committee members to read BAEC Memo 2[3] on positions taken by the United States and Latin American reaction at the Meeting of Ministers of Finance or Economy, Rio de Janeiro, November 22–December 2, 1954.

The positions we took at Rio were developed to counteract growing enthusiasm on the part of the Latin American countries for planned economies and for developing their resources through government assistance rather than through private initiative and private financing. At the Tenth Inter-American Conference, held in Caracas in March, 1954, the need for a reconsideration of United States policies toward Latin America became evident. A sub-Cabinet committee met during the summer of 1954 and reviewed all important aspects of inter-American economic relations. The U.S. program was discussed with other governments in advance of the Rio meeting. They were told that the U.S. was not prepared to encourage economic development by any of the following methods, which the Latin Americans were proposing: (1) large grants, (2) an inter-American Bank, (3) price stabilization schemes, or (4) preferential trade arrangements. Instead, we would recommend: (1) expanded trade, (2) stimulation of private investment, (3) increased lending, especially by the Export-Import Bank, (4) consultation with interested governments regarding surplus disposal, and (5) gradual expansion of technical assistance activities.

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[2] Reference is to the meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly called the Rio Economic Conference), held at Quitandinha, Brazil, November 22–December 2, 1954; for documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

[3] Not printed. (Department of State, OAS Files: Lot 60 D 665, BAEC Memos)

Mr. Holland said that the results of these policies will be held up for scrutiny at the economic conference in Buenos Aires; if the policies have been successful, the maintenance of United States leadership in the Hemisphere will be promoted. It is therefore important that the Sub-Committee consider whether the policies are being carried out effectively and, if not, what should be done.

Mr. Holland stated that our performance on trade has been good. We have successfully resisted all attempts to impose tariff or quota restrictions on Latin American products. We have also made substantial progress in stimulating private investment. The record in public lending was very good up to the beginning of this fiscal year, but since that time has slowed down, and a positive stimulus may be needed. He added that it may be necessary actively to promote loans in Latin America in order to establish a record of satisfactory progress. Failing such progress our Government will be faced with a political problem at Buenos Aires.

Mr. Arey stated that the Export-Import Bank has pending a number of sound loan applications, on which action is currently being delayed at the request of the State Department.

Mr. Kenny suggested that a special meeting of the Sub-Committee might be called to discuss the loan problem, if it appeared to be a serious threat to the success of our program. Messrs. Arey, Holland, and Kalijarvi offered to look into the matter and see if questions with regard to the loan program could not be resolved through discussion between State and the Eximbank.

Mr. Holland reported on his recent visit to six of the Latin American countries[4] and said he saw measurable proof of the success of United States policies in the economic field. He found that private enterprise is held in higher esteem than was the case when he visited these countries prior to the Rio Conference. Some of the protagonists of state socialism have changed their line completely, Dr. Prebisch[5] among them. Others have disappeared from the active political scene. Governments which were formerly timid in their criticism of Communism are now more outspoken.

Mr. Atwood agreed that the willingness of the Latin American countries to go along with U.S. policies is stronger now than it was before the Rio Conference but commented that the change has been taking place gradually over the past seven or eight years. These countries have come to recognize increasingly their responsibility for working out their own development programs and of turning to the

[4] See Document 76.

[5] Raúl Prebisch, an Argentine economist and Executive Secretary of the U.N. Economic Commission for Latin America.

United States for assistance only on those phases of the program which have our support.

Future Work of the Sub-Committee

With reference to the future work program of the Sub-Committee, Mr. Holland suggested that the position papers prepared for the Rio Conference be reviewed to determine whether they will still be applicable to the Buenos Aires Conference; that each agency represented on the Sub-Committee review the papers and recommend changes, if any; that the Sub-Committee in its subsequent meetings take up designated portions of the papers; and that the Sub-Committee hold its next meeting in April. The Sub-Committee accepted these suggestions.[6]

[6] The review took place during the early months of 1957. Several memoranda relating to the review, bearing late March and early April dates, are in Department of States, OAS Files: Lot 60 D 665, BAEC–General. The next meeting, scheduled for April 12, was apparently never held.

137. Memorandum of a Conversation, Department of the Treasury, Washington, May 23, 1957[1]

SUBJECT

Buenos Aires Economic Conference

PARTICIPANTS

Under Secretary Randolph Burgess, Department of Treasury
W—Deputy Under Secretary Dillon
ARA—Mr. Rubottom
Assistant Secretary McClellan, Department of Commerce
Mr. Poirier, Department of Commerce
Mr. George Willis, Department of Treasury
Mr. Elting Arnold, Department of Treasury

On the initiative of the Treasury Department, Deputy Under Secretary Dillon and I attended this meeting in Under Secretary of Treasury Burgess' office for the purpose of orienting U.S. thinking in respect to the upcoming Buenos Aires economic conference and especially the first item on the agenda which has already been

[1] Source: Department of State, Central Files, 365/5–2357. Official Use Only. Drafted by Rubottom.

approved, viz., Inter-American Economic Agreement.[2] Mr. Willis, in telephone conversations with me, had made it clear that Mr. Burgess was somewhat reluctant to have the representatives of the Treasury Department enter into detailed discussions of the text of the agreement until such time as this meeting had taken place.

At Mr. Burgess' request, I briefly outlined the positions taken by the United States at international conferences over the past few years, especially the one at Caracas in March 1954, followed by the Rio Economic Conference in November of that year, in which we had, along with the Latin American governments, agreed to have prepared a systematized compilation of various economic declarations, resolutions and recommendations approved by the Inter-American Conferences with the understanding that this compilation should be used as the basis for the draft text of a general economic agreement. I also read specifically from the text of the resolution[3] adopted with our approval at the Rio Conference placing responsibility on the Inter-American Economic and Social Council to make this draft text with the understanding that it would be considered at a meeting of plenipotentiaries such as the one coming up in Buenos Aires in August of this year.

Mr. Burgess expressed his understanding of the background which had led up to our present situation and recalled the discussions as well as the ultimate resolution approved at the Rio Conference. However, it was evident from the statements made by Under Secretary Burgess and Messrs. Willis and Arnold, that the Treasury Department still has very serious doubts as to whether we should undertake to negotiate with the Latin American governments on a text of the kind drafted by the Secretariat of the Pan American Union at the request of the Inter-American Economic and Social Council. I made clear repeatedly that we recognized that the draft text included language which goes far beyond that which the United States has ever agreed to in the past or conceivably could agree to in the next meeting, but that this was generally the case and that we

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[2] The IA-ECOSOC approved the final version of the agenda for the Buenos Aires Conference on February 14. It consisted of five main parts: I. General Economic Agreement, II. Economic Development, III. Foreign Trade, IV. Technical Cooperation, and V. Transportation. For text, see *Economic Conference: USDel Report*, p. 19

[3] Reference is to Resolution 39/54, which instructed the IA-ECOSOC to prepare a draft of a General Economic Agreement, on the basis of the compilation contained in document ESSE-10/54, the recommendations, declarations, and resolutions adopted at the Rio Economic Conference, and all decisions of an economic nature adopted up to the time when the draft text would be presented to the Buenos Aires Economic Conference. Document ESSE-10/54 was revised and updated by the Secretariat of the OAS and presented to the Buenos Aires Economic Conference as document 13/57, entitled "Compilation of Treaties, Conventions, Resolutions and Recommendations on Economic Topics Adopted by the American Republics since 1889", which was current to June 1957.

should not hesitate to decide our position and then negotiate it as strongly and as effectively as possible. We should, of course, always bear in mind the possibility that we would have to take a stand which might be considerable at variance with our Latin American friends.

The Treasury representatives were very much concerned over the possibility of having to submit such an agreement, assuming that we are successful in negotiating one, to the Congress. They feel that the present mood of Congress is such that there is very little chance of success in getting any type of agreement ratified. The Commerce Department representatives echoed this sentiment on the basis of their recent experience in support of OTC.

It was agreed by all that it would be far easier from the U.S. point of view if any agreement could take the form of a Declaration rather than a treaty or executive agreement. However, I pointed out the real doubt that the Latin American countries would be satisfied with another Declaration or that it would fulfill our commitment to negotiate for an agreement. I agreed to consult within the Department to determine our preference as between an executive agreement and a treaty.

It was also agreed by all present that I should immediately discuss this subject with the President's Counsel, Mr. Gerald Morgan, and possibly have preliminary talks with the staff, at least, of the Senate Foreign Relations Committee in order to apprize them of the present U.S. posture on this subject. I said that I would undertake to do this as quickly as possible.

Mr. Willis inquired about the procedures to be followed in submitting the text of such an agreement to the Senate for ratification. I said that this was a routine matter which probably would involve obtaining the comments of the various interested government agencies and that the State Department presumably would take the initiative in sending it over to the Foreign Relations Committee. This seemed to satisfy the Treasury representatives who, I gathered, had no particular interest in handling the agreement in the event it emerged from the BA Conference.

The Treasury representatives voiced their already known doubts about the order of the Agenda, stating that the agreement should really be the last item rather than the first item on the Agenda since the subsequent items were all included in the agreement text as chapters or subordinate headings. On the other hand, they as well as the others present recognized that the various Agenda items would be assigned to working committees at the Conference and the net effect would be to have all of the subjects discussed simultaneously.

All of those present are aware of the need for giving this matter urgent consideration and I said that I would call a meeting of the CFEP Sub-Committee for sometime next week.

I made it clear that the United States had already committed itself to take part in negotiations looking toward an agreement in some form and that we intended to approach the upcoming BA Conference with the most positive frame of mind and most constructive program possible, otherwise there was no point in attending the Conference. I also indicated awareness of strong resistance in some branches of the Executive to this, or any other type of agreement with the/Latin American governments while, at the same time, we were not objecting to the European common market and other regional approaches to problems which were just as severe for Latin America as they were for any other area of the world. Therefore, the United States could not adopt a completely negative attitude with respect to discussing, at least, the subject matter included in this draft agreement. Mr. Dillon expressed his agreement with this line, as did Under Secretary Burgess and Assistant Secretary McClellan.

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138. Summary Notes of a Meeting of the Subcommittee on the Buenos Aires Economic Conference, Department of State, Washington, May 28, 1957, 3 p.m.[1]

PARTICIPANTS

State:
Mr. Rubottom (Chairman)
Mr. Kalijarvi
Mr. Turkel
Mr. Sanders
Mr. Corliss
Mrs. Mulliken
Mr. Briggs
Mr. Robinson
Mr. Chase
Mrs. McClung
Mr. Favell

Defense:
Mr. Kenny

Export-Import Bank:
Mr. Rowntree

ICA:
Mr. Atwood

ODM:
Mr. Winant

Treasury:
Mr. Willis
Mr. Korp
Mr. Arnold

[1] Source: Department of State, OAS Files: Lot 60 D 665, BAEC—CFEP Subcommittee. Confidential. No drafter is indicated on the source text.

Agriculture:
Mr. DeFelice
Commerce:
Mr. Knowles
Mr. Poirier
Interior:
Mr. McCaskill

Mr. Rubottom said he had received inquiries as to whether the Argentine Government might not request deferment of the Economic Conference, which is scheduled to open in Buenos Aires on August 15, 1957. He had raised the question with Ambassador Beaulac, who thought such a request unlikely. The US must therefore proceed rapidly to prepare its position for the conference.

The first item on the agenda is a proposed General Inter-American Economic Agreement, a preliminary draft of which had previously been circulated to all agencies represented on the committee.

Mr. Rubottom said that the Department of State assumes no responsibility for the draft agreement and that it has no official status. The Inter-American Economic and Social Council was directed, by Resolution 39 of the Rio Conference (1954), to prepare an economic agreement for submission to the forthcoming Buenos Aires Conference. The Council was unable to reach accord on a text and turned the work of preparing the draft over to the Secretariat. Many of the provisions of the present draft are clearly unacceptable to the United States Government and also may not have the support of other governments. At the same time, the US has a firm commitment to consider an inter-American economic agreement of some sort.

Mr. Rubottom had discussed with Mr. Gerald Morgan of the White House Staff and Mr. Carl Marcy, Chief of Staff, Senate Foreign Relations Committee,[2] the various forms which an economic agreement might take, and there are at least three possibilities, i.e., (1) an executive agreement, (2) a treaty to be submitted to the Senate for consent to ratification (or it could be an agreement for approval by joint resolution of both Houses of Congress), or (3) a declaration of principles which would have the status merely of recommendations to governments. Decision as to the form which the agreement should take will depend on the type of document which is developed in the course of negotiations.

The Inter-American Economic and Social Council will discuss the paper beginning Monday, June 3, and these meetings will afford the US an opportunity to judge whether other governments are prepared to eliminate the provisions to which the US could not agree

[2] A memorandum of Rubottom's conversation with Marcy, drafted by Sanders, is *ibid.*, Central File 365/5–2357.

and reduce the document to least common denominators or whether they will insist on including provisions on controversial issues.

Mr. Rubottom said that all agencies had been invited in April to submit comments on the draft agreement but that observations had been received from only four agencies. A meeting will be held at 10 a.m., Friday, May 31 to afford all interested agencies an opportunity to present their views and discuss the draft.

Mr. Kalijarvi doubted that the Senate Foreign Relations Committee would give serious consideration to an agreement of the type circulated. It dislikes vague commitments, and the draft would have to be much more concrete and specific if treaty form is to be considered. Also, the agreement is unbalanced. It calls for many concessions from the US and very little from the Latin American countries. A one-sided proposal is not likely to be approved by the Senate.

Mr. Kalijarvi added that US trade policy is likely to come under attack at Buenos Aires. In the past week we have agreed to raise taxes on imports of lead and zinc and imposed restrictive quotas on woolen textiles and linen toweling.

Mr. Rubottom said the US was failing to live up to commitments made at the Rio Conference in at least two respects. We had undertaken to keep our markets open to Latin American products, and the new lead-zinc duties would hurt several Latin American countries. Also, we had announced at Rio the establishment of an International Finance Corporation which would help these countries finance their economic development. After two years, not a single loan has been made.

Mr. Atwood said that the US record on some of its undertakings at Rio was good. The Export-Import Bank has provided large credits. The technical cooperation program has advanced, partly because of funds made available through our surplus disposal program, which was not foreseen at Rio. He agreed with Mr. Kalijarvi that the draft agreement is weighted in favor of the Latin American countries, and he recommended that the US request concessions to compensate. A strong offensive is the best strategy in such negotiations, and the US record is good enough to permit its use.

Mr. Rubottom agreed that the US need not be on the defensive. He thought the US platform at Buenos Aires should be the same as at Rio—a strong presentation of the benefits of private investment and free private enterprise. To support this the delegation will need a detailed statement of Latin America's total dollar receipts from the US. The Commerce Department agreed to provide this information.

Mr. Willis questioned the desirability of proceeding with the negotiation of an agreement. He thought it would inevitably be vague and meaningless unless the Committee determined promptly

what type of agreement the US is shooting for. The proposed draft waters down the US philosophy materially, and even after negotiation we may well come up with a draft that the US could not accept.

Mr. Rubottom saw no need for backing away from a discussion of an agreement just because the first draft is poor. He regarded it as a working level paper which will be materially changed when it comes before the Council. If the Council does not produce a draft which we regard as suitable for negotiation at Buenos Aires and possible submission to the Senate, the Committee can then recommend that the objective be changed from a treaty to a declaration of principles. The latter could be our second line of defense.

Mr. Willis asked whether there should not be a US position developed on the paper prior to the meeting of the IA–ECOSOC.

Mr. Rubottom said that was the purpose of the meeting scheduled for Friday.[3] It was agreed that the US would take a strong stand against objectionable portions of the present draft and that the US representative on the Council would obtain guidance, as needed, from the interested agencies as changes in the draft are proposed.

Mr. Knowles asked whether it was not clear in advance that neither a treaty nor an executive agreement was a real possibility.

Mr. Rubottom said Mr. Marcy of the Senate Foreign Relations Committee had told him that the Committee was, in general, favorably disposed toward Latin America. Mr. Marcy thought that if an agreement could be developed at Buenos Aires in conformity with the well known principles of US foreign economic policy, it might be approved in the form of a treaty.

In conclusion, it was agreed that there will be circulated to the CFEP Subcommittee a list of topics expected to be discussed at Buenos Aires. A brief indication of the current US policy on each one will be included. After approval or amendment by the Subcommittee, the working group will prepare the position papers, which, in turn, will be presented to the Subcommittee for approval.

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[3] May 31.

139. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary of State for Economic Affairs (Dillon)[1]

Washington, May 29, 1957.

SUBJECT

International Finance Corporation: Processing of Loan Applications from Latin American Countries

At the Buenos Aires Economic Conference, which begins August 15, 1957, we can, I believe, expect to have a difficult task of negotiations due to the continuing impossibility of our acceding to Latin American demands for money and measures that they say they need for their economic development.

One of the most insistent of these demands is that for more US public capital. Time and again, for example, the Latin Americans have proposed an inter-American bank. Our position has been and is that the existing international lending institutions are adequate.

At the Rio Economic Conference in 1954 we used our participation in the International Finance Corporation as an example, along with the Export-Import Bank and the IBRD, to demonstrate the scope and adequacy of lending institutions already available or to be available to the Latin Americans.

The IFC has not as yet, I understand, taken final action on any of the loan applications which it has received. All of the Latin American countries, except one, are eligible to request IFC loans, and those countries have already submitted some twenty-five applications.

To demonstrate at Buenos Aires the persuasiveness of our position on the adequacy of existing lending institutions, it would be highly desirable for the IFC to take action on at least some of the Latin American applications before the Buenos Aires Conference begins.

We are not advocating favorable action on any particular application or applications. We would simply urge that, because of the Buenos Aires Conference, the IFC now complete as soon as possible its processing of the applications from Latin America so that any of them which merit favorable action might be announced prior to August 15.

Presumably the most effective way of seeking to accomplish this objective would be to discuss the foregoing frankly with Mr. Robert

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[1] Source: Department of State, OAS Files: Lot 60 D 665, BAEC. Official Use Only. Drafted by Sanders.

L. Garner, President of the IFC. Mr. Garner is, I understand, out of the country at the present time but will return shortly.

Recommendation:

That you, Mr. Kalijarvi, and I, at your convenience, meet with Mr. Garner for the above purpose as soon as possible.[2]

[2] The following handwritten notation by Dillon appears on the source text: "Have already spoken to Garner in this vein *without* success. He professes sympathy and blames delay on prospective borrowers. Suggest you follow up alone and attempt to pin him down re one or two specific projects. If you have any success, I will be glad to tackle him further on any specific project."

140. Editorial Note

In a memorandum to Secretary Dulles, dated June 19, Assistant Secretary Rubottom recommended that the Secretary plan to visit Buenos Aires during the Economic Conference "to dramatize the interest in which Latin America is held at the highest level of this Government." He also proposed that the trip include brief stopovers in Bolivia, Brazil, Chile, Paraguay, and Uruguay, countries which the Secretary had not yet visited, for the purpose of strengthening United States relations with them. On June 22, Rubottom sent another memorandum to the Secretary, suggesting an itinerary arranged to enable him "to be in Washington until Congress adjourns and to reach Buenos Aires before the Economic Conference terminates." These memoranda were returned to Rubottom under cover of a note from Joseph N. Green, Jr., of the Executive Secretariat, dated June 26, which reads: "The Secretary does not feel that he can now plan to make this trip." (Department of State, Central Files, 365/6–1957)

141. Memorandum of a Meeting, Department of State, Washington, June 28, 1957[1]

SUBJECT

Buenos Aires Economic Conference

PARTICIPANTS

W—Mr. Dillon
E—Mr. Kalijarvi
Mr. Corbett
Mr. Corse
Mr. Tom Robinson
Mr. Nichols
Mr. Whitehouse
ARA—Ambassador Randall
Mr. Corliss
Mr. Sanders

Mr. Dillon said that, at the suggestion of Secretary Dulles, Mr. Burgess will supervise fiscal and monetary topics, and Mr. Dillon will be responsible for the other subjects. Mr. Dillon asked that E prepare for him a more adequate briefing on trade than appears in BAEC Memo 13.[2]

At the Conference Mr. Leddy will be Mr. Dillon's special assistant. A set of BAEC memos should be sent to Mr. Leddy as soon as he returns from his present absence.

Mr. Dillon asked that a series of briefings, beginning the week of July 8, be set up for Mr. Burgess and him. These meetings should be attended by a small number of State and Treasury officers. Position papers, as they are prepared, will be reviewed at the meetings.[3]

Mr. Dillon commented that the US views on the agenda topics of the Conference seem to be consistently negative but that we should make an effort to take a positive and accommodating position whenever possible.

It will be decidedly advantageous for Mr. Anderson to attend the Conference, and it would be desirable for him to be there for 4 or 5 working days. We should find out as promptly as possible what is likely to transpire at the Conference during August 15, 16 and 17 since the 15th and the 17th are holidays. It might turn out that we would want to recommend to Mr. Anderson that he arrive in Buenos

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[1] Source: Department of State, OAS Files: Lot 60 D 665, BAEC. Official Use Only. Drafted by Sanders.

[2] Not printed. (*Ibid.*, BAEC—Memos)

[3] At these meetings, Dillon, Burgess, and other participants reviewed the draft position papers prepared by the EA Committee and proposed changes. Memoranda of these meetings, drafted by Sanders, are *ibid.*, BAEC—Pre-Conference Preparations.

Aires on Sunday, August 18 and remain at the Conference through the following week. (Following the meeting ARA sent a telegram to our Embassy in Buenos Aires requesting information on the work of the Conference during August 15–17.)[4]

Careful thought should be given promptly to the selection of officers who will be available to coordinate views in Washington and to provide answers and guidance to the US Delegation in Buenos Aires. The selection of a top official for this purpose should be made before Mr. Kalijarvi departs on leave on July 3. (Mr. Kalijarvi is to return from leave on August 5). With Mr. Dillon at the Conference, Mr. Kalijarvi's work load, apart from Conference matters, will be increased to such an extent that he will probably not have time to take responsibility for overseeing the Washington end of the work of the Conference; perhaps Mr. Murphy should be asked. ARA and E should select representatives to participate in Washington in the support of the US Delegation at the Conference.

Since it may not be possible for the Latin Americans and us to reach accord on a General Inter-American Economic Agreement, we may wish to suggest at the Conference that, instead of a treaty, convention, or agreement, the delegates prepare a declaration or resolution. Thus, we should have prepared in advance the text of a resolution to submit to the Conference at the proper time, if necessary. This draft should be prepared promptly in State. Its preparation should not be divulged to other agencies, except Treasury, for every precaution should be taken to guard against the Latin Americans' getting the erroneous impression that we do not intend seriously to negotiate for a General Agreement.

It would be desirable to accomplish as much as possible in negotiations on the draft General Inter-American Economic Agreement before the Conference starts, and we may want to propose to the Inter-American Economic and Social Council (IA–ECOSOC) that representatives of the governments assemble in Buenos Aires to negotiate in advance of the Conference. Before deciding to make this proposal to the IA–ECOSOC, however, we should await the mid-July replies asked of our Embassies in an instruction now being sent to the posts conveying, for transmission to the local governments, the present US views on the draft Agreement.[5]

Mr. Dillon stated that he will leave Washington on August 6, visit Lima and Santiago, and arrive in Buenos Aires on August 13. Mr. Dillon will use these stops partly to discuss Buenos Aires agenda topics with local officials.

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[4] Telegram 1446, June 28. (*Ibid.*, Central Files, 365/6–2857)

[5] Apparent reference to instruction CA–88, July 3. (*Ibid.*, 365/7–357)

Mr. Dillon said that he will ascertain the representation of the White House, if any, on the US Delegation, and that he also will consult with the Export-Import Bank regarding the latter's representation.

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142. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

[Washington,] July 24, 1957.

DEAR MR. RANDALL: As Chairman of the Council's Subcommittee to prepare for the Economic Conference of the Organization of American States, convening in Buenos Aires on August 15, 1957, I am pleased to report that the Subcommittee is nearing completion of its deliberations. In accordance with your request,[2] there is attached for consideration by the Council a brief memorandum about (a) the major issues which we expect to be discussed at the Conference and (b) the suggested position of the United States delegation on each.

We believe that the leading topics of the Conference will be the same as, or very similar to, those that persistently recur at inter-American meetings on economic subjects.

The United States policies on major issues in inter-American economic relations have become well established and widely known. The recommended United States positions for the Buenos Aires Conference follow the familiar lines.

The attached memorandum by no means contains a complete list of topics, but only those that we believe will be the principal and possibly the most controversial ones. Also, the indicated United States positions are no more than the essence, for in the preparation of position papers careful attention is being given to an elaboration explaining our policies and describing accomplishments to date.

The Subcommittee has not had an opportunity to read the attached memorandum, but the statements of United States positions

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[1] Source: Department of State, Central Files, 365/7–2457. Official Use Only. Drafted by Sanders.

[2] The request was conveyed to Rubottom by Randall during a meeting at the Department of State on June 12; a memorandum of conversation of the meeting is *ibid.*, 365/6–1257.

do, I believe, faithfully reflect the substance of the Subcommittee's opinion.

Under Secretary Burgess and Deputy Under Secretary Dillon have been kind enough to go over the memorandum, and they have expressed their general concurrence. Any observations or directives that you or members of the Council care to make will be most welcome.[3]

Sincerely yours,

R. R. Rubottom, Jr.[4]

[Attachment]

SELECTED TOPICS AND US POSITIONS, ECONOMIC CONFERENCE OF THE ORGANIZATION OF AMERICAN STATES[5]

Proposed General Inter-American Economic Agreement

Draft Agreement: At the 10th Inter-American Conference (Caracas, March 1954) and at the Meeting of Ministers of Finance or Economy (Rio de Janeiro, Nov.–Dec. 1954) resolutions were passed (the US approved) to provide for the preparation of a draft Economic Agreement, and the Rio Resolution specified that this draft would be considered at the Buenos Aires Economic Conference. A draft has been written in the Secretariat of the Inter-American Economic and Social Council, and, as might be expected, it contains much which is advocated by the consensus of Latin American states but which the US does not accept. Some of the differences are on the choice of language or relatively minor topics. Some of the differences, however, are on subjects of major importance, such as price stabilization for Latin America's primary exports; price parities between Latin America's exports to and its imports from the US; for surplus disposal international agreements administered by intergovernmental agencies; the complete subjection of private foreign investment to local laws and constitutions (Calvo Doctrine); taxation of income

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[3] The attached memorandum, designated CFEP 535/1 and distributed to Council members on July 25, was approved at the Council's 61st meeting, held in the Executive Office Building, August 1.

[4] Printed from a copy which bears this typed signature.

[5] A much more detailed paper, entitled "Proposed U.S. Position on Subjects That Might Come up at the Buenos Aires Conference", keyed to the Conference agenda, was also prepared in the Department of State. An undated copy, with no drafting information, is in Department of State, OAS Files: Lot 60 D 665, BAEC—Pending File: Memos to Rubottom.

only in the country in which it is earned; lengthy, detailed stipulations on economic relations during emergencies.

US Position: In view of the Caracas and Rio Resolutions and because of the importance many of the Latin Americans attach to an Economic Agreement, we plan to discuss the draft earnestly at Buenos Aires. In preparation for such discussions we have already conveyed our tentative views on the entire text to the other American Governments. It is hoped that at the Conference US-Latin American divergencies may be alleviated and general harmony maintained by accord on a shorter, more general document, possibly in the form of a resolution or declaration. We are drafting such a document.

Economic Development

Financing: Many Latin American officials have long and vigorously demanded a larger share of US public capital going to foreign countries, and at Buenos Aires they will, no doubt, reiterate past proposals for some kind of inter-American fund or credit institution.

US Position: Private capital, domestic and foreign, should be the primary source of development financing; the Latin American countries should strive to improve their investment climate by such means as curbing inflation, achieving monetary stability, mobilizing domestic savings, encouraging private enterprise; the US strongly supports bilateral tax agreements to eliminate tax obstacles to the formation and flow of capital. The US has a broad and positive policy toward public investment in Latin American economic development. A new institution is not necessary; the Export-Import Bank, the IBRD, and the IFC can meet all demands for ordinary, conventional dollar loans. The Smathers' Fund, PL–480 lending,[6] and the new Development Loan Fund are additional sources of public financing. Because of the limited resources of the Fund, however, it will be generally necessary to relate its loans to the relative priority needs on a world-wide basis.

Foreign Trade

Regional Market: The Latin Americans are expected to suggest, and to ask for US concurrence in, regional markets, free trade areas, or regional trade agreements as ways of promoting economic development.

US Position: When specific proposals are made, the US will examine each on its merits.

Prices and Parities: The Latin Americans will probably renew requests for US cooperation in schemes (for example, commodity agreements) (a) to "stabilize" prices for primary Latin American

[6] Agricultural Trade Development and Assistance Act, enacted July 10, 1954; for text, see 68 Stat. 454.

exports and (b) to insure a "fair and equitable" relationship between the prices of Latin America's exports and imports.

US Position: The US is opposed to such schemes. The US does not, in general, favor international commodity agreements (wheat and sugar are exceptions) but will consider with other governments commodity problems on an ad hoc basis and will continue to participate in international study groups (such as the existing groups for cotton and rubber) for which there is an established and continuing need. Means to moderate price instability are diversification of Latin American economies, for which the US provides technical and financial assistance, and the maintenance of a high and rising level of economic activity in the US which is US policy and which facilitates a profitable market for Latin American exports.

Trade Policy: A large number of Latin Americans are painfully aware of US actions adversely affecting their export sales, and a troublesome issue will be actual or potential US restrictions on imports (such as wool tops, tung oil, lead and zinc, petroleum).

US Position: Despite aberrations emphasis can be given to (a) the continued basic liberal trade policy of the US (reciprocal, gradual, selective reduction of tariffs and other barriers) and (b) low or non-existent US duties on major Latin American exports.

Surplus Disposal: Latin American countries have complained of US surplus disposal practices and policies, and this question may arise.

US Position: The US continues to seek orderly disposals that do not disrupt normal markets. Encourage delegations of countries that have benefitted from PL–480 transactions to make statements offsetting adverse comments. Point out the good US record on PL–480 consultations to safeguard usual marketing of other countries, and cite the economic development benefits of PL–480 loans.

Technical Assistance

OAS Program: The Secretariat of the Organization of American States (OAS) has prepared a number of recommendations, perhaps the most important of which call for making the OAS technical assistance program "permanent" and with "compulsory" contributions (the US contributes 70 percent).

US Position: The US cannot agree to a "permanent" program (we consider it a "continuing" activity) or to compulsory contributions, although we believe the Secretariat's recommendations require further study.

143. Editorial Note

On July 3 the Department of State sent instruction CA–88 to all diplomatic missions in Latin America. This instruction contained the Department's comments on the Draft General Economic Agreement prepared by the Preparatory Committee for the Buenos Aires Economic Conference (Inter-American Economic and Social Council), including amendments proposed by the United States. All posts were instructed to approach the governments to which they were accredited "to obtain a preliminary exchange of views, in order to facilitate and expedite the treatment of this subject at the Conference." (Department of State, Central Files, 365/7–357) A summary of the positions of the Latin American governments regarding the Draft General Economic Agreement, dated August 15, and specific replies to the Department's CA–88, are *ibid.*, OAS Files: Lot 60 D 665, Box 178, BAEC—General Economic Convention.

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144. Memorandum From the Secretary of State and the Secretary of the Treasury (Anderson) to the President[1]

Washington, August 5, 1957.

SUBJECT

Buenos Aires Economic Conference

The United States Delegation will shortly leave to represent us at the Economic Conference of the Organization of American States, which will convene at Buenos Aires, Argentina, on August 15, 1957. The Conference may last from two to three weeks.

Secretary Anderson will be the head of the Delegation. Deputy Under Secretary of State Dillon will be his alternate. The Departments of Commerce and Agriculture will be represented on the Delegation.[2]

The subjects to be discussed at the Conference will include trade, finance, technical assistance, economic development, public and private investment, transportation and related matters. The

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[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Official Use Only.

[2] For a list of U.S. Delegation members, see Department of State *Bulletin*, August 26, 1957, pp. 363–364.

Council on Foreign Economic Policy has reviewed the most important positions to be taken by the United States at the Conference and an interdepartmental subcommittee has prepared basic policy guidance for the Delegation on all of these topics.

One of the most significant and controversial items on the agenda will be discussion of the text of a General Inter-American Economic Agreement, in the form of a treaty. We plan to negotiate for a treaty in good faith, since we are committed to do so by earlier inter-American resolutions. However, because of basic differences between our policy and that of several other Latin American countries on key economic issues, there is serious doubt that agreement on a treaty at Buenos Aires will be possible. In this case, further negotiation might be scheduled for the next suitable inter-American conference, or agreement might be reached on a non-binding Declaration as a substitute for the treaty. Either result would be satisfactory to the United States, since an economic treaty is not necessary to further our objectives in Latin America.

Also, the Latin American delegations may press us very strongly to endorse the establishment of a new financial institution in the Western Hemisphere in which the United States would participate. Our Delegation would have to oppose any such effort and abstain from any resolution along this line.

With respect to trade, the Delegation will support principles looking toward greater freedom of international trade. However, we must recognize that our announcements regarding restrictions on petroleum and tung oil and our proposals to raise the tariff on lead and zinc will be factors adverse to us on this issue at the Conference.

A brief summary of the most significant subjects to be discussed at the Conference and of the related policies of the United States is enclosed for your information.

John Foster Dulles
Robert B. Anderson

[Enclosure]

Washington, August 2, 1957.

SUMMARY OF MAIN SUBJECTS FOR DISCUSSION AT BUENOS AIRES ECONOMIC CONFERENCE AND OF RELATED UNITED STATES POLICIES

A. General Inter-American Economic Agreement

In accordance with the request of the Conference of Ministers of Finance or Economy, held at Quitandinha, Brazil, in 1954, the Secretariat of the Inter-American Economic and Social Council has prepared a draft economic treaty for consideration at Buenos Aires. The draft contains much which is advocated by the consensus of Latin American States but which the United States does not accept. The key matters on which the United States is likely to find itself in disagreement with Latin American countries are:

1. *Regional trade.* The Latin American countries may ask our support for new discriminatory trade arrangements among Latin American areas which do not meet the standards of the "common market" arrangements we have supported in Western Europe. Our position will be that we cannot endorse new blanket exceptions from our established most-favored-nation policies but will consider on their economic merits, as we have in the past, any concrete proposals which may be put forward in the future.

2. *Protection of private investment.* Many Latin American countries assert the "Calvo doctrine" that national constitutions and laws override any and all rights of foreign investors. We hold to the principle that foreign capital is entitled to equitable treatment, including adequate compensation in the event of expropriation for a public purpose.

3. *Commodity stabilization.* Almost all Latin American countries will want the United States to endorse international commodity control agreements (for example on coffee). As at previous conferences, the United States Delegation will make it clear that the United States opposes such policies.

4. *Surplus disposal of agricultural products.* Latin American countries, concerned about the effect of our P.L. 480 exports on their own export trade, may press for commitments from the United States to enter into a much more thorough-going process of consultation with respect to such sales than we now employ. The United States may have to enter into some kind of undertaking in this field, but could not agree to procedures which would hamper the carrying out of the P.L. 480 and other programs.

B. Other Important Issues

1. *Financing economic development.* Latin American officials have long argued for a larger share of United States public capital for Latin America; and will probably revive past proposals for an inter-American credit institution. The position of the United States will be that private capital should be the primary source of development financing; that the Export-Import Bank, the IBRD and the IFC can meet all appropriate demands for public loans.

The U.S. will adhere to the view expressed at the Quitandinha Conference that it will not participate in a new inter-American financial institution and will not take an active role in any study group which may be formed to draft a charter for such an institution. This position may require, as in 1954, a formal U.S. abstention from a Latin American resolution (a) proposing the actual inauguration of an Inter-American Bank with U.S. participation, or (b) creation of a study group charged with drawing up plans and charters for regional banks or funds of the SUNFED type.

2. *Double taxation.* Latin American officials have often asked for the elimination of "double taxation," meaning by this that the United States should not tax income earned in Latin America by U.S. companies. The United States cannot agree to this proposal but it has a sound and active treaty program to reduce tax burdens on private investment abroad and plans to propose the general endorsement of the principle that tax obstacles to international investment should be reduced.

3. *Compulsory technical assistance.* Several Latin American officials have proposed that contributions to the technical cooperation program of the Organization of American States should be made "permanent" and "compulsory". Since our financial contributions depend, of course, on Congressional appropriations, our position is that while we support the idea that the program should continue on an indefinite basis, we cannot agree that it should be permanent and compulsory.

145. Memorandum of a Conversation, Alvear Palace, Buenos Aires, August 16, 1957[1]

USDel/MC/14

PARTICIPANTS

Messrs. Dillon and Leddy, U.S. Delegation
Dr. Raúl Prebisch, Secretary General of ECLA
and Mr. A. Santa Cruz, Secretary of ECLA

SUBJECT

ECLA Activities in the Field of Inter-American Trade

(1) In accordance with arrangements made earlier in Santiago, Dr. Prebisch and Mr. Santa Cruz called on Mr. Dillon to discuss this subject. Mr. Dillon said that he had read ECLA's recent report entitled "ECLA Activities Relating to Payments and a Regional Market in Latin America". He had found the report very interesting and had been particularly pleased to note the stress which had been placed upon private enterprise and competition. He said that there had been some misunderstanding in Washington that the views of the ECLA secretariat with respect to regional trade agreements in Latin America anticipated a considerable degree of monopoly and state planning. In reading the report he had found that this was apparently not the intention.

(2) Dr. Prebisch stated emphatically that the ideas of the secretariat on developing a larger regional market in Latin America were strongly opposed to arrangements which would lead to monopoly. He said that the misunderstanding of which Mr. Dillon had spoken probably arose from the use of the phrase "division of the market" in describing certain aspects of the proposals. If monopolies were allowed to develop, or regional trade were not fostered on a free enterprise basis, this would ruin the whole concept of the common market. Dr. Prebisch stated that the idea of creating a common market for individual products in the field of capital goods or heavy durable consumer goods would be economically productive only if there were complete freedom of competition between industries in the countries participating in the plan. For example, if a common market were to be established for automobiles and tractors between, say, Brazil, Argentina and Chile, there would be complete freedom of decision by private enterprise to determine where the industries should be located. With respect to state trading, he said that the ECLA secretariat thought that there should be some form of inter-

[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel/MC/1–23. Official Use Only. Prepared in the Delegation Secretariat.

governmental technical assistance to new industry, for example, a pulp and paper industry in Chile, but that the secretariat was opposed to any extension of state trading, which tended to be highly restrictive.

(3) Mr. Dillon then inquired as to the reason for approaching the common market on a selective commodity basis. He said that the United States believed that for regional arrangements to be truly productive it would probably be necessary to cover all commodities and sectors of the economy. He appreciated that it might not be possible to achieve a complete integration within a few years, but thought that it would be wise if regional arrangements were developed, to be sure that they envisaged full-scale integration as the end result of the process. Dr. Prebisch said that the reason for confining the common market proposals to individual commodities and to capital goods industries which were not now in existence, was essentially political. He said that it would be extremely difficult for the Latin American countries to establish a common market for consumer goods of which there was existing production. On the other hand, if a beginning could be made for non-existing industry it might be possible to widen the arrangements to include existing industry at a later time.

(4) Dr. Prebisch confirmed the impression left by Mr. Swenson in Santiago earlier in the week (see memo of conversation prepared by Mr. Eakens, Embassy Santiago[2]) that for the time being ECLA would be concentrating on progress toward the elimination of bilateral payments arrangements. Bilateral trade balancing agreements were presently the most important factor restricting inter-American trade and it would be necessary to achieve a degree of relaxation in this field before common market proposals could have much effect. He agreed that the multilateralization of inter-American payments would probably have to be accompanied by a greater degree of coordination of internal monetary and fiscal policies in the participating countries.

(5) The point was made to Dr. Prebisch that in considering proposals for market integration, the level of the external tariff was an important factor to be looked at, as well as the degree of internal integration contemplated. He said that for tractors and automobiles, for example, the ECLA people were thinking that a rate as high as 30 to 40 per cent might be necessary. To the comment that this seemed a fairly stiff tariff, he replied that the Latin American countries already had even higher rates in existence as well as other forms of restriction; and that it would be expected that if a common

[2] Not found in Department of State files.

market for the automotive industry were established, the 30–40 per cent tariff would be the only restriction on imports from the outside.

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146. Consolidated Memorandum of a Conversation, Buenos Aires, August 17, 1957, 3–6 p.m.[1]

USDel/MC/17

PARTICIPANTS

United States
Secretary Anderson
Deputy Under Secretary Dillon
Assistant Secretary Rubottom

Latin American Countries
Urzua Merino, Chile—Embassy Residence, Esmeralda 851
Vasconcellos,[2] Uruguay—Crillon Hotel, Room 601
J. Octavio Durón,[3] Honduras—Plaza Hotel, Room 244
Alvarez Restrepo,[4] Colombia—Plaza Hotel, Lobby
Despradel,[5] Dominican Republic—Plaza Hotel, Room 658
Serrano,[6] El Salvador—Plaza Hotel, Lobby

1. On the problem of a general economic agreement:

Urzua Merino of Chile wants a formal agreement on broad principles; not inflexible on this point if others approve a resolution or manifesto in general terms, especially if discussion drags. Vasconcellos of Uruguay not specially committed to the idea that an economic agreement should be a long and detailed document but would want a general agreement on broad principles to emerge from this Conference. Durón of Honduras was amenable to a statement of general principles, felt that long speeches on detailed treaty would be unproductive and unlikely to obtain legislative approval in different countries. Despradel of the Dominican Republic goes along with the US view on a general statement of principles; claimed that his country could view the problem serenely because its economy is in good condition. Serrano of El Salvador insisted that the general

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[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel/MC/1–23. Official Use Only. Prepared in the Delegation Secretariat.

[2] Amilcar Vasconcellos, Minister of Finance.

[3] Octavio Jacinto Durón, Undersecretary of Economy.

[4] Antonio Alvarez Restrepo, Minister of Finance.

[5] Arturo Despradel, Governor of the Central Bank.

[6] Antonio Serrano Langlois, Undersecretary of Economy.

agreement should consist of a formally signed treaty even though brief and based on general principles; he considers this the most important item before the Conference. Alvarez Restrepo of Colombia favored a general agreement on broad principles that could later be amplified.

2. On the problem of financing of economic development:

Urzua Merino of Chile is specially interested in the establishment of an Inter-American Development Fund; he feels that existing agencies are not adequate to fill present needs for increased financing; a new institution is definitely needed arguing that investments are mutually advantageous. (Just as a democratic majority attitude in the US toward a new institution is an important consideration to the US delegation, the democratic majority attitude in the conference toward said institution should be a deciding factor). Durón of Honduras expressed no special interest in an Inter-American Development Fund. Alvarez Restrepo of Colombia, expressing gratitude for Eximbank and World Bank aid, felt that increased activity on their part might be better than establishing a new institution. Despradel of the Dominican Republic expressed interest in financing of economic development stating that his country had contributed to the Export-Import Bank, the IMF and other agencies but has not yet used their facilities; he seemed impressed with a Cuban proposal for serious study for the eventual establishment of an Inter-American financing system. Serrano of El Salvador favored the establishment of an Inter-American Fund on the grounds that the progress made in Central America on a regional program of economic integration and the contributions made by bilateral agreements to the same end justify trying an Inter-American financing system to bring about economic integration of the whole Latin American area.

3. On the problem of foreign trade: prices and markets and promotion of Inter-American trade:

Urzua Merino of Chile was greatly concerned about stabilization of prices of basic products. Pointing out that Chile's copper economy suffers greatly from price fluctuations in the world market, he stated that the producing countries cannot do anything individually to get fair prices; the Chilean Government is taking all possible austerity measures in its efforts to stabilize the economy and check inflation. Vasconcellos of Uruguay advocated strongly the promotion of a common market plan and obtained from Secretary Anderson, upon inquiring, the reply that this was a problem requiring greater study. Durón of Honduras stated that his country would go along with any plan for promoting Inter-American trade acceptable to the majority as long as it does not interfere with Central American plans for economic integration within their area. Alvarez Restrepo of Colombia felt that OAS studies have shown that Inter-American trade

should be stimulated. Common market idea should receive greater study and more sympathetic consideration. Despradel of the Dominican Republic stated that the diversified economy of his country offers no acute problems on markets and prices as is the case of monoculture countries; he aired no views about a common market program. Serrano of El Salvador limited his discussion of foreign commerce to an observation that the Central American economic integration program is proving a success in promoting commerce in that area.

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147. Editorial Note

On August 19 Secretary of the Treasury Anderson, United States Delegate, addressed the First Plenary Session of the Conference. For text, see *Economic Conference: USDel Report,* pages 27–34.

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148. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Snow) to the Secretary of State[1]

Washington, August 22, 1957.

SUBJECT

The Inter-American Economic Conference at Buenos Aires

The Buenos Aires Conference is, in essence, a continuation of a long-standing effort by the Latin American countries to obtain from the United States special economic concessions which we are not prepared to grant.

The main issues, in the probable order of their importance to most Latin American countries, are as follows:

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[1] Source: Department of State, Cabinet Meetings: Lot 68 D 350, CP–7. Official Use Only. Drafted by Rosenson, cleared by Turkel, and concurred in by Willis C. Armstrong.

1. Special regional facilities for financing economic development. We believe existing institutions and private investment provide ample sources of development capital.

2. Stabilization (at high levels) of prices of Latin American primary product exports. We oppose endorsement of the principle of commodity agreements.

3. General inter-American economic agreement. The substantive differences that separate us from the Latins on many issues are so marked as to make agreement on a binding treaty of this kind almost out of the question. The Mexican delegation is attempting to line up the other Latin American delegations in favor of a declaration of general principles in place of a treaty. We might be able to approve such a declaration if our views are properly taken into account in it.

4. Regional trade arrangements. The European common market has given considerable impetus to the movement for some kind of Latin American economic regionalism. So far nothing concrete has been proposed, but some definite plan may emerge as a result of studies now being carried out by ECLA. We are willing to consider on its merits any definite proposal that is economically sound and consistent with our general trade principles. In this connection, the U.S. recently assisted Nicaragua in obtaining provisional approval at GATT of plans for the formation of a free trade area and eventual customs union among the five Central American states.

5. U.S. surplus disposal. The force of the criticism on this score has been mitigated (a) by our demonstrated desire to protect the legitimate interests of other suppliers, and (b) by the fact that seven Latin American countries have entered into PL 480 agreements with us, with others definitely interested.

6. Reduction or complete elimination of U.S. taxes on income earned by American business firms in Latin America. We oppose this and favor bilateral tax agreements to eliminate tax obstacles to the flow of capital. We have indicated our willingness to include "tax-sparing" provisions in such treaties.

Our position at the Conference has been made more difficult, first, by recent or imminent actions affecting certain important Latin American exports (petroleum, lead and zinc,[2] tung oil, long staple cotton) and secondly, by the recent House action reducing the Economic Development and Technical Cooperation funds and eliminating the special regional fund for Latin America (Smathers Fund).[3]

As the Conference committees started their work only yesterday, it is too early to forecast results.[4]

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[2] Reference is to Congressional efforts to raise import fees on lead and zinc. In Soaec 19 from Buenos Aires, August 19, Anderson and Dillon state in part the following: "We strongly urge that administration stand firm against alteration of lead zinc bill [H.R. 6894]. In our efforts allay fears Mexicans, Peruvians and Bolivians, who so far very friendly to US, we have stressed limited amount of increase, fact that rates would be reduced and removed as prices increase, and intentions US carry out its trade-agreement obligations." (Department of State, Central Files, 365/8–1957)

[3] For documentation, see Documents 56 ff.

[4] An attached agenda of the Conference is not printed.

149. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 21, 1957—1 p.m.

Soaec 28. Eyes only Secretary from Dillon. No distribution outside Department. Before departing Anderson[2] told me that I could have his full proxy for Treasury in any case where on the spot decision might be necessary. This will greatly facilitate my work and is much appreciated.

Anderson also asked that special arrangements be made to provide him directly with copies of all incoming and outgoing telegrams regarding conference. This to be in addition to copies regularly furnished Treasury.

Because of his familiarity with conference atmosphere, Anderson wishes to follow its progress personally and to keep him personally available to Department for consultation on conference problems whenever necessary.[3]

Beaulac

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[1] Source: Department of State, Central Files, 365/8–2157. Confidential; Eyes Only.

[2] Secretary Anderson departed Buenos Aires on August 20. Upon his departure, Deputy Under Secretary Dillon, who had been Alternate Delegate and Vice Chairman, became Acting Chairman of the Delegation.

[3] Ecoas 27 to Buenos Aires, August 21, eyes only for Dillon, reads: "Copies of all incoming and outgoing telegrams regarding Buenos Aires Conference being forwarded directly to office of Treasury Secretary Anderson as you requested in Soaec 28." (Department of State, Central Files, 365/8–2157)

150. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, August 21, 1957[1]

General Economic Agreement—On the basis of a check he made last night Mr. Rubottom expressed the opinion that if we decided to do so, we could assemble enough votes at this time to decide on a resolution as against a treaty. Honduras, for example, does not want a treaty, and Paraguay will go along with us. Mr. Dillon pointed out that no one is urging a treaty, and that Uruguay is the only country that might do so. Ambassador Maura, Mr. Rubottom said, thinks we must make at least a serious effort to get a treaty.

It was pointed out that the press in Buenos Aires and elsewhere (Uruguay) is taking the line that in the absence of a treaty the conference will be a failure. In response to Mr. Dillon's inquiry, Mr. Leddy said that Brazil's text does not resolve the basic issues so far as we are concerned.

Mr. Rubottom said that the Cubans have suggested the dividing up of the negotiations among the other committees, and another suggestion has been to form a committee of about seven countries to meet in Washington to negotiate. Mr. Leddy pointed out that the procedural problem of negotiating would exist whether the objective is a treaty or a resolution.

In response to a question from Ambassador Dreier, Mr. Dillon stated that our position is to negotiate in earnest. There is much difference of opinion in Buenos Aires, and in the time available it may be too difficult to reach agreement, not only between us and the Latins but especially among the Latins themselves. Signing a treaty with the reservations would be a waste of time. Therefore, the only possibility may be a resolution.

[Here follows discussion of several procedural matters.]

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[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel Meetings. Official Use Only. Drafted by Sanders. The Steering Committee was originally comprised of the following Senior Advisers to the Delegation: Senator Frank F. Church; Special Assistant to the President Gabriel Hauge; Assistant Secretary of Commerce Henry Kearns; Rafael Picó, Secretary of the Treasury, Commonwealth of Puerto Rico; and Samuel C. Waugh, President and Chairman, Export-Import Bank of Washington. Also included on the Committee were Messrs. Rollin S. Atwood, Jack C. Corbett, John M. Leddy, Clarence W. Nichols, Richard I. Phillips, Public Affairs Officer, ARA; and George H. Willis, Director, Office of International Finance, Department of the Treasury. Rubottom and Sanders regularly attended the meetings; Sanders normally drafted the summary notes.

151. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 22, 1957—11 p.m.

Soaec 32. In conversation with USDel on Wednesday, members of Brazilian delegation expressed strong interest in achievement of economic agreement in treaty form. As a result Dillon and Rubottom called on Brazilian Finance Minister[2] this afternoon to review situation re economic agreement. Dillon outlined US views regarding difficulty reaching solid agreement on number of key topics which had been subject of controversy for many years.

Welcomed Brazilian draft of July 31 as attempt to shorten and simplify agreement but pointed out it still contained number difficult points on which we felt agreement doubtful. Therefore, we had concluded would be necessary to go to even more general draft or possibly to declaration.

Alkmin replied that Brazil felt there would be serious public reaction if conference was unable to reach agreement on some kind economic treaty. He indicated Brazil has no strong feelings on content of treaty and would be glad to make it as general as necessary to reach overall agreement. Alkmin further said he considered Mexicans and Uruguayans would be main obstacle to reaching agreement. He suggested US and Brazilian delegations meet privately to go over new Brazilian draft introduced Tuesday[3] to see if possible reach agreement, in which case he felt there was possibility other delegations might agree. He was particularly concerned that in no event should any responsibility for failure to reach definite agreement fall on Brazil. Alkmin also stated that new Brazilian draft was considerably more general in nature than July 31 draft. (We have not yet obtained English translation of new Brazilian draft which only submitted late Tuesday in Portuguese.)

As indication of seriousness with which he regarded problem Alkmin, who had planned to leave tomorrow, said he was seeing Carrillo-Flores this evening in attempt obtain his agreement to a simplified general agreement in treaty form. If conversation with Carrillo-Flores went well Alkmin said he would delay his departure and stay Buenos Aires as long as necessary.

We have reason believe Argentine delegation actively supporting Brazilian position that economic agreement must be signed here with very little concern as to what it contains. We feel it important to

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[1] Source: Department of State, Central Files, 365/8–2257. Confidential; Priority.
[2] José Maria Alkmin.
[3] August 20.

avoid to fullest extent possible reasonable basis for concluding that US responsible for failure to reach agreement.

Meanwhile work of Committee I has reached following stage: Committee I, after prolonged argument procedures, began discussion IA–ECOSOC secretariat draft of general economic agreement USDel made statement saying that detailed comprehensive text such as secretariat draft not likely produce agreement because of issues remaining since Bogota economic agreement and that best chance of obtaining acceptance of instrument without reservations would be consider simpler and shorter version. Committee then briefly discussed preamble and first five articles secretariat text and appointed drafting committee with US as member. US has so far not distributed alternative B or shown it to other delegates. Debate in committees and outside discussions have now confirmed our conviction any agreement as ambitious as secretariat approach completely impossible. At same time it is clear that failure reach any agreement at all will be blamed on US unless we can demonstrate sincere effort try for agreement along lines alternative B. Accordingly plan introduce first three articles alternative B in drafting group tomorrow as substitute secretariat articles one through nine and will also discuss entire draft with Brazilians and Mexicans.

Beaulac

152. Minutes of a Cabinet Meeting, The White House, Washington, August 23, 1957, 9–10:50 a.m.[1]

THE FOLLOWING WERE PRESENT

President Eisenhower

Vice President Nixon
Sec. Dulles
Sec. Anderson
Sec. Wilson
Deputy Atty Gen Rogers (for Mr. Brownell)
Mr. Summerfield
Under Sec. Chilson (for Sec. Seaton)
Sec. Benson
Under Sec. Walter Williams (for Sec. Weeks)
Under Sec. James T. O'Connell (for Sec. Mitchell)
Sec. Folsom
Director Brundage
Mr. Gordon Gray
Chrm. Ellsworth
Amb. Lodge
Dr. Saulnier
Under Sec. Treasury F.C. Scribner
Asst. Sec. Commerce F.H. Mueller
Mr. Charles Kendall, ODM
Mr. Wilbur Fritz, ODM
Mr. Leo Hoegh, FCDA
Mr. Arthur Larson, USIA
Mr. Max Medley, GSA
Mr. Edw. C. Sweeney, GSA
Mr. Henry H. Pike, GSA
Gov. Adams
Gen. Persons
Mr. Rabb
Gen. Cutler
Gen. Goodpaster, in part
Mr. Hagerty, in part
Mr. Martin
Mr. Morgan, in part
Gov. Pyle
Mr. Shanley
Mrs. Wheaton
Mr. Patterson

Buenos Aires Conference—Sec. Anderson reported first on his conversations in Brazil where officials pressed the question of assistance for oil development. In response to the President's query, he stated that Brazil was very slowly paying back the $400 million loan previously granted.

Regarding the Buenos Aires Conference, he noted the desire of small countries for some sort of economic treaty. Because of the opposition of larger countries, he believed the outcome would be some form of declaration not requiring Congressional approval. He noted the Latin American feeling of being stepchildren in the activity of the World Bank. Their desire for an Inter-American Bank was not shared by the Secretary, who believed that loans and existing mechanisms should be used. Mr. Anderson reported also the great interest in commodity agreements, a procedure which would be

[1] Source: Eisenhower Library, Whitman File, Cabinet Meetings. Prepared by Minnich. A notation on the source text indicates that Under Secretary of the Treasury Scribner and the eight following participants attended for item 2 only.

difficult for the United States. Of particular concern to Peru, Mexico, and Chile was our proposed action on lead and zinc, about which a sharp protest—only in small part for the record—would be forthcoming since the action might cause three million workers in Peru to be unemployed.

Other subjects discussed included tax sparing as an inducement to capital investment and compensation for private property confiscated by governments. In view of Mexican sensitivities, Mr. Anderson believed it best to work toward some general language on the latter, acceptable to all countries.

Sec. Anderson concluded by noting the difficulties experienced by Argentina caused by Peron's departure along with some $800 million of its resources, and President Aramburu's efforts to foster democracy in a depressed economic situation.

[Here follows discussion of agenda items entitled "Government Aluminum and Copper Purchases", "Expenditures and Personnel", "Regional Boundaries", and "Report on the Economic Situation".]

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153. Memorandum of a Conversation, Plaza Hotel, Buenos Aires, August 23, 1957[1]

USDel/MC/21

PARTICIPANTS

United States
Deputy Under Secretary Dillon
Assistant Secretary Rubottom
Stanley D. Metzger
Latin American Countries
José María Alkmin, Finance Minister of Brazil and associates
Antonio Carillo Flores, Secretary of Treasury, Mexico

SUBJECT

General Economic Agreement

The discussion dealt with the basic problem facing the Conference whether there should be a treaty or a declaration on general economic principles.

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[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel/MC/1–23. Confidential. Prepared in the Delegation Secretariat. The conversation took place in the office of the Brazilian Delegation.

Brazil stressed the importance of a treaty, but emphasized that it could not accept the provision with respect to just compensation in the event of expropriation of private property unless it was made clear that the Brazilian constitution was supreme in the matter of determining what constituted just compensation. Mexico was, if anything, even stronger on this point. Both countries recognized that this created grave problems for the United States but Brazil particularly nevertheless hoped that a treaty could be formulated which would omit controversial items such as this one.

The United States Delegation doubted that any agreement omitting an important element in the economic relations among the American States could properly be called a general economic agreement, and foresaw serious problems of ratification of such an instrument by the United States Senate, or indeed, by the legislatures of some other countries represented in the Conference, and would require deep study by Washington. Mexico stated it believed a treaty was impracticable because of the nature of the differences of view on such matters as this one.

The United States inquired just what was the reason for the belief on the part of some that it was necessary to have a treaty rather than a declaration. The Brazilian Minister stated, without much force or conviction, that there was a feeling that if a treaty did not emerge the Conference might be deemed to have failed—a declaration was a "down-grading" of a treaty.

At this point the United States recounted the history of attempts to negotiate a treaty since 1948, including the failure of IA–ECOSOC to negotiate, the reference of the matter to the Secretariat, the willingness of the United States to participate in the necessary preliminary work which should have preceded this Conference. It was pointed out that there was no use in our kidding ourselves. It was extremely difficult if not impossible to negotiate a meaningful treaty in this field. Mexico and Brazil agreed that the IA–ECOSOC had not negotiated, and that they also had been prepared to participate in a preliminary conference; Brazil stated they thought the reason it was not held was because Argentina feared that if it were held, the Conference itself would not have taken place, because the preliminary discussions would have disclosed that the wide differences of view could not be sufficiently narrowed.

The United States Delegation distributed copies of U.S. Draft Alternative B, explaining that it represented our effort on the treaty side, and that it could quite easily be made into a declaration. The United States Delegation pointed out that such matters as the just compensation point could be handled, it was believed, satisfactorily to all concerned if it were a declaration rather than a treaty. It was also pointed out that, although the United States Alternative B draft

contained no provision dealing with the problem of commodity price fluctuations, we were prepared to consider adding such a provision, which might be a modified form of Articles 11 and 15 of the latest Brazilian draft. (Minister Carillo Flores knew from earlier discussions that we were thinking of a mild provision.)

There appeared to be general agreement that the practicable solution to the problem was a unanimous declaration of principles, with Brazil stressing the necessity of coming out of the Conference with at least that much. There was also discussion concerning the best way of handling the failure to arrive at a treaty from the public relations point of view. It was stressed by Mexico and Brazil that public statements from now on should avoid high hopes or expressions of disappointment at the fact that a treaty might not emerge. Rather, it was believed that a failure of a treaty to emerge could be laid to pre-existing impersonal factors such as the constitutions of the various countries making it impossible for them to accept in treaty form certain kinds of commitments, rather than any new difficulties being created by the Conference itself. All acknowledged that the difficulties with which we were faced were of long standing.

The desirability of close cooperation among the three delegations in Committee I and outside of that Committee, both in the consideration of the treaty draft and in the formulation of a declaration, was stressed by all. Mexico, Brazil and the United States Delegations would consider controversial matters separately for use in a declaration.

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154. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, August 26, 1957[1]

General Economic Agreement. Mr. Leddy suggested that by Tuesday or Wednesday[2] of this week we should endeavor to have shifted from a treaty to a resolution. Mr. Leddy will be seeing Garcia Robles (Mexico) tonight. Mr. Willis and Mr. Corbett are having lunch with Hernandez Delgado (Mexico) today and Mr. Rubottom may join them for the purpose of bringing up the general agreement. If real

[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel Meetings. Official Use Only. Drafted by Sanders.

[2] August 27 or 28.

difficulty with the Mexicans should develop over the agreement, Carrillo Flores (Mexico) will be contacted. As previously indicated, there is no problem with the Brazilians about seeking a resolution instead of a treaty.

Economic Development. Mr. Corbett reported that three proposals on financing economic development (Chile, Uruguay, Cuba) are being studied for the purpose of combining them to take account of private investment and present financial institutions and to come out with an action recommendation along the lines of Recommendation No. 7 of the CPR.[3] Chile, it was noted, is not as intransigent as it was at Rio with respect to an Inter-American Bank.

Mr. Corbett said that he is having lunch with the Mexicans today to endeavor to moderate their proposal about the IBRD.[4]

The principal objective that the Ecuadorans seem to have at the Conference is to get approval of a resolution calling for a model tax treaty. Mr. Gordon[5] and Mr. Meyer[6] have sought unsuccessfully to talk the Ecuadorans out of this proposal. Such a model as the Ecuadorans desire would be too general to be useful. It was agreed, however, that the resolution would not be greatly harmful and that if necessary the US will ultimately vote for it provided Mr. Gordon agrees.

Mr. Corbett said that there were some resolutions in his committee on financial assistance for agrarian reform.

On other aspects of economic development, there are a few resolutions, each with some local applicability in the countries making the proposals. Examples are two resolutions on collecting statistics and on asking the IMF to study inflation (Cuba).

Foreign Trade. Mr. Nichols and Mr. Metzger[7] are having a meeting with the Bolivians to endeavor to induce them to withdraw their resolution about attachment of bank funds. Mr. Dillon pointed out that since the Bolivian delegation is under instructions from La Paz

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[3] See footnote 8, Document 134.

[4] Soaec 37 from Buenos Aires, August 25, concerning the financing of economic development, reads in part: "Mexicans introduced resolution implying mild critical attitude towards implementation of Rio resolution on local currency and general import financing by IBRD in special cases, but approving EXIM Bank policy this matter. Resolution proposes: (1) Direction to IA-ECOSOC to take up matter with IBRD directly; (2) Recommendation to member governments to instruct their executive directors to review this problem in executive board of Bank. In background is desire of Mexicans to obtain loans outside petroleum and power without importing foreign capital goods, citing IBRD loan to Southern Italy as precedent." (Department of State, Central Files, 365/8–2557)

[5] Nathan Gordon, Chief, International Tax Staff, Office of International Finance, Department of the Treasury.

[6] Charles A. Meyer, Vice President, Latin American Operations, Sears, Roebuck and Company.

[7] Stanley D. Metzger, Assistant Legal Adviser for Economic Affairs.

to attain this resolution, possibly we would have to get our Embassy at La Paz to approach the Bolivian Government. An alternative would be a resolution as suggested by Mr. Metzger providing that earmarked Central Bank funds will not be seized.

Technical Cooperation. A drafting group working on the Brazilian and Mexican resolutions has come up with seven recommendations:

1. A CPR recommendation implies a fund for the Secretary General, and this recommendation would now be carried further in providing for direct technical assistance.
2. Loans would be provided to educational institutions under a fund established by the Secretary General with donations, the source of which is not specified. The thought behind this proposal is the Venezuelan offer at Panama and a use of the Smathers Fund.
3. The Brazilians are pressing hard to have the US contribution, which is now 70 percent of the general fund, become 70 percent of the general fund plus host-country contributions for specific projects within those countries.
4. This recommendation has to do with administrative problems.
5. and 6. These recommendations provide that the IA-ECOSOC and national agencies would provide coordination.
7. To make possible advance planning, an earlier date for pledges would be set.

Mr. Williams saw no special difficulties with 4, 5, 6 and 7. Mr. Dillon believed that we might, with some modifications, agree to 1 and 2. The principal difficulty for the US would be with 3, to which we could not agree.

Transportation. Mr. Nolan reported that three resolutions had been approved by the working group. Still under consideration are a resolution on freight rates (Brazil), and two proposals (Panama, Uruguay) on River Plate transportation. Mr. Nolan indicated that his committee will probably complete its work by the middle of the week.

Coordination Committee. Mr. Dillon pointed out that this committee should meet to act on the assignment of certain resolutions.

The Chilean and Mexican delegations have submitted resolutions on the frequency of economic conferences, suggesting that the Ministers of Finance or Economy meet every three years. Ambassador Dreier indicated that he will talk to representatives of these delegations about their proposals. Mr. Dillon said that the US position is that frequent meetings are desirable but not formal conferences such as the present one. It was agreed that we should seek to get the Mexican and Chilean resolutions on the subject combined and broadened to request the IA-ECOSOC to consider the frequency and type of meetings.

CPR Recommendations. Ambassador Dreier asked that we be alert for any resolutions which imply changes in CPR recommendations. Mr. Dillon asked that our delegation be particularly alert to avoid any such results at this Conference.

Termination Date. Mr. Rubottom asked that we press informally, whenever and wherever possible, to have the committees finish their work on Thursday[8] so that plenaries could be held on Friday, Saturday and Sunday. It was pointed out that Committee I cannot complete its work by Thursday. At the same time, however, our pressure on all committees would be conducive to Committee I's finishing as soon as possible.

Ambassador's Reception. It was announced that heads of other delegations are being invited to the Ambassador's reception on Thursday night. The Ambassador asked that there be submitted promptly (to Mr. Young[9]) the names of other key people on the other delegations so that they might also be invited. Local Ambassadors on the other delegations should be included. Also, there should be included key officials in the Secretariat (such as Bermudez[10] and Mora).

[8] August 29.

[9] Apparently Charles L. Young, Special Assistant to the Secretary of the U.S. Delegation.

[10] Washington P. Bermúdez, Chairman, Inter-American Economic and Social Council.

155. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 26, 1957—5 p.m.

Soaec 40. Meetings Committee III International Trade and Committee IV Inter-American Trade August 21–24 completed organization of committees and working parties and agreed division of trade proposals among them. English translations now available. Preliminary explanation some proposals made but substantive discussion and debate in committees scheduled begin August 26 and be completed if possible August 28.

Commodity problems comprise principal issues Committee III. Proposals include Inter-American meetings and organizations to con-

[1] Source: Department of State, Central Files, 365/8–2657. Official Use Only.

sider problems lead, zinc, and other metals; special committee to study means moderating effects fluctuations prices basic products; IA–ECOSOC study possibility inter-governmental agreements establishing "normal" prices and instituting systems credits *to compensate exporting countries* part of their revenue loss when prices below normal and amortization credits when prices above normal; prior consultation surplus disposal and recommend countries avoid chronic overproduction or surplus.

Not yet clear as to intent of Costa Rican proposal for coordination of institutions for stabilizing the prices of agricultural products. Committee III also has Bolivian proposal that member states take necessary legal steps to assure that assets of foreign state banks immune to attachment by private parties in advance definitive decree judicial proceeding. USDel hopes to induce committee action more congenial US position than these proposals.

Major subject Committee IV is encouragement further work on plans for developing regional market. Hope large number parallel resolutions can be consolidated into one or two general resolutions capable of receiving general approval including US. Some proposals have been made for exceptions MFN which US cannot approve but uncertain yet whether proposers will make these serious issue. Committee IV also has Peruvian proposal to create Inter-American Institute of Immigration. USDel doubts this directly related to trade or clearly justifiable other grounds. Hope, however, proposal can be modified to be unobjectionable to direct US interests if majority in committee prove to favor some action of this type.

Beaulac

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156. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, August 28, 1957[1]

Coordinating Committee. Ambassador Dreier reported that there is strong sentiment, promoted especially by the Mexicans, that a conference like this one be held every three years for the purpose of pressuring the US. The basis for this sentiment is the fact that it is through such repeated pressure that the Latins have obtained concessions from the US over the years. Mr. Rubottom suggested, and it

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[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel Meetings. Official Use Only. Drafted by Sanders.

was agreed, that we should take the position that, instead of such conferences as this one, extraordinary meetings of the IA–ECOSOC should be used.

Duration of Conference. Mr. Rubottom said that Beckmann[2] had agreed to have a Plenary Session beginning between 4:00 and 5:00 on Thursday afternoon. Beckmann also agreed that the Conference would end on September 3 or September 4. Mr. Dillon suggested that at the meeting of the Coordination Committee today we should seek to get final approval of the Plenary Session on Thursday.

General Economic Agreement. Mr. Leddy reported that at 10 a.m. today the Brazilians and Mexicans are to present to us their joint draft of a resolution.

In Sub-Committee A[3] a review has now been made of the first eleven articles of the Secretariat draft, and the US has reserved on several of the articles.[4]

Mr. Corliss reported that in Sub-Committee B article 13 on price stabilization had been redrafted, but in many respects it is still objectionable to the US. Other troublesome articles, 17, 18 and 19, will be discussed today. It was agreed that the US should reserve on articles 13, 17, 18 and 19, and that we should not get involved in detailed language changes in Sub-Committees A or B.

Economic Development. Mr. Corbett reported that Sub-Committee B had completed its work and reported to Committee II.

In Sub-Committee A, he said, work has been completed on the resolutions having to do with financing economic development, except the proposal for an Inter-American Bank. There is a small group drafting a resolution about such a Bank. In the Whereas section of the draft, reference is made to private investment and the existence of present banks. Also, this section refers to "some governments" which place reliance on private investment and the present international lending institutions. "Other governments", however,

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[2] Conrado Carlos Beckmann, Argentine Ministry of Foreign Relations, Secretary General of the Conference.

[3] For information concerning the subcommittees established to review portions of the Draft Economic Agreement in Committee I of the Conference, see *Economic Conference: USDel Report*, pp. 4–5.

[4] Soaec 45 from Buenos Aires, August 28, 10 p.m., reads in part: "USDel considers Mexican-Brazilian draft seriously defective being unbalanced and tending commit US to principles contrary US policy even though it is resolution. As it has not proved possible use text alternate B as basis of negotiations US has prepared thorough revision of Mexican-Brazilian draft which being given them tonight as tentative US position. Expect meet with Brazilian-Mexican [representatives] tomorrow morning in attempt work out agreed draft." (Department of State, Central Files, 365/8–2857)

"Alternate B" or Alternative B was the name given to a draft of a general economic agreement prepared as a negotiating paper for the U.S. Delegation. A copy of the paper, August 5, together with related documentation, is *ibid.*, OAS Files: Lot 60 D 665, Committee I—General Economic Agreement.

believe otherwise. The Rio resolutions establishing the committee of experts and also the CPR recommendations for a study are described. In accordance with the CPR recommendations, there should be a study of the flow of capital to Latin America. And it is resolved that these recommendations should be implemented as soon as possible. For this purpose, Chile is pressing for the establishment of a time limit. The study would be made by government experts, and when it is completed, the OAS would consider measures for implementation. The Latin Americans are making a strong endeavor to have the US committed to take action after the study is made. In a word, they are trying to get a commitment for a new banking institution. The resolution urges governments to take measures to increase the flow of private investment.

On the Mexican resolution about the IBRD, the Bank is in agreement and we can concur. Mr. Corbett pointed out that there will be many differences of opinion on the two points involved in this resolution, general credit lines and financing of local expenditures.

Foreign Trade. Mr. Nichols reported that the 10:30 meeting this morning may be the final one for Committee III. It was agreed, however, that if serious problems for us come up in this meeting we should reserve on them and ask that the final meeting be postponed until we have an opportunity to study further the proposed resolutions.

Bolivian resolution 74[5] seems to be a dead issue. The subcommittee is reporting that it can do nothing about the proposal, and the Bolivian has returned to La Paz.

Proposed resolution 100[6] on terms of trade is acceptable to us in providing for a study, but if a US draft sentence in the Whereas section is not accepted, we shall have to abstain on that portion of the resolution.

The Mexican and Argentine resolution on surplus disposal is a generally worded one complaining about US operations in this field.[7] We have stated in Committee III that we are willing to talk about specific problems but that we are against such a generally worded document. A sub-committee of five has been set up to endeavor to draft an acceptable resolution. This group is meeting at 9:30 this morning. The US objective is to recognize the importance of the

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[5] This resolution, entitled "Elimination of Restrictions on Trade", was introduced to the Conference as Document 74, not printed.

[6] This resolution, entitled "Terms of Trade", was introduced to the Conference as Document 100 by Argentina, not printed.

[7] Mexico and Argentina both introduced resolutions to the Conference: respectively, Document 98, "Price and Market Problems of Basic Products", and Document 105, "Recommendation on Surpluses of Primary Products", neither printed.

problem but not to condone any general condemnation. The troublesome points are prior consultation and non-interference with traditional markets. Mr. Nichols expressed the opinion that use of the word "timely" would be satisfactory with respect to consultation. It was agreed that a draft of this resolution would be brought back for review by the delegation before final acceptance, and because of this Committee III should not hold its last meeting this morning.

There was a lengthy discussion of the proposed resolution on basic products. We have already made clear to the Latins that paragraph 5 of the Whereas and paragraph 2 of the Resolves are unacceptable to us. Also, however, the entire framework of the resolution is unsatisfactory. Our position is that we cannot commit ourselves in principle to commodity agreements. We are willing to recognize the importance of stable income, and we are willing to study the problems of individual commodities. It was agreed that we will draft a resolution ourselves and give it to the Latins as the most that we can accept. It was also decided that if the work of the drafting group this morning does not result satisfactorily, Mr. Dillon or Mr. Rubottom might go before the full sub-committee to explain our position. Mr. Dillon will also contact the Peruvian and Chilean delegations to point out to them that the studies they desire are being jeopardized.

In Committee IV the US is having difficulties with a resolution on a common market. Six resolutions[8] were presented on this subject and a drafting sub-group working on the basis of the Brazilian draft is trying to find acceptable language. The following point is of particular importance to us and on it we are in conflict with several of the countries, especially Argentina:

A declaration that the countries of the hemisphere should approach a regional market progressively and selectively.

Limited preferential arrangements are implied, and this is unacceptable to the US. We have discussed this problem with the Brazilian, who chairs the drafting group. He is willing to see the entire resolution dropped except for the fact that he thinks it essential that the Conference have some resolution on this subject. Mr. Dillon today will endeavor to discuss this problem with Santa Cruz of the ECLA staff. It was also agreed that Mr. Pappano[9] should take up the matter with the Argentines.

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[8] A handwritten notation on the source text indicates that these resolutions were introduced by Argentina, Brazil, Chile, Mexico, Peru, and Uruguay.

[9] Albert E. Pappano, Chief, Trade Agreements Branch, Trade Agreements and Treaties Division.

In Committee IV there has been approved a general resolution approving liberal terms of trade.

The Paraguayan and Bolivian proposals in Committee IV on land-locked countries is difficult because of our policy on most-favored-nation treatment and because of our trade agreement with Paraguay. That agreement provides for an exception, with regard to Paraguay's neighbors. The problem for us revolves around preferences that the land-locked countries would give neighbors and the preferences that those neighbors might be expected to give the land-locked countries. Mr. Pappano expressed the belief that the matter of preferences will be dropped. They have been thrown in with the main issue, which is to provide freedom of transit for the land-locked countries. If, however, the question of trade preferences is not dropped, the US delegation will have to consider the matter further.

Technical Assistance. Dr. Picó reported that Committee V has almost completed its work. It has disposed of resolutions on the new center, on an agricultural institution (in line with CPR recommendations) and on the permanency of a housing center. There remains, however, the difficult question of the Argentine-Brazilian proposal about contributions. The Brazilians were not present at the meeting yesterday of the committee. The Argentines agreed with us in advance, but in the meeting they attacked the US position. We would want a resolution providing only for further study and discussion of the problem of contributions. Apparently, only Cuba sides with us. The Costa Ricans will probably go along but believe that the resolution is useless. The Brazilians are not being helpful to us. They are leaving it to Argentina and Uruguay to maintain the Latin position. It was agreed that we should state in the committee that the US prefers no resolution but that the most we can agree to is a general and non-committal one.

Transportation. This committee has approved and submitted the following resolutions:

1. The continuation of an ad hoc committee on freight rates.
2. A recommendation on uniform maritime statistics.
3. Taking note of the work of the 7th Pan American Highway Conference,[10] without making any mention of financing the Darien section of the Pan American Highway.
4. The promotion of uniform and stable freight rates.

Mr. Nolan pointed out that all of the following resolutions are entirely acceptable and desirable from the US point of view.

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[10] Held in Panama City, August 1–10; pertinent documentation is in Department of State Central File 398.2612–IA and *ibid.*, OAS Files: Lot 60 D 665.

A working group is dealing with three resolutions on the River Plate system and it is likely that consolidated resolutions will be drafted today.

Driscoll–Krieger Interview. Mr. Rubottom mentioned that Mr. Driscoll[11] is calling on Minister Krieger Vasena[12] today. It was agreed that Mr. Driscoll will simply listen and report back the results of his conversation.

[11] Hilary A. Driscoll, Chamber of Commerce of the United States in the Argentine Republic; Adviser to the Delegation.
[12] Adalbert Krieger Vasena, Argentine Minister of Finance.

157. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, August 30, 1957[1]

Foreign Trade

Mr. Nichols reported that yesterday in Committee III the US agreed to a resolution on basic products (establishing a "permanent" IA–ECOSOC committee to study the subject) but abstained from a second resolution regarding basic products (providing for automatic credit and implying a commitment on commodity agreements). Mr. Nichols pointed out that we should be prepared to make a statement in the Plenary concerning our abstention.

Committee III also approved an acceptable resolution on surplus disposal.

There are two items remaining. On document 100 about terms of trade the US proposal for amendment failed yesterday by a vote of 7 to 9. A Costa Rican resolution on IA–ECOSOC's collecting information about government agencies that have statistics on seasonal shortages will be dealt with today.

Mr. Pappano reported that in Committee IV there were approved a resolution on Latin American regional markets and a resolution on the promotion of inter-Latin American trade both acceptable to the US. The common market resolution represents a merging of six proposals and calls for studies by the IA–ECOSOC and the ECLA. While this resolution was approved unanimously, the Central American states entered the interpretation that they are not

[1] Source: Department of State, OAS Files: Lot 60 D 565, USDel Meetings. Official Use Only. Drafted by Sanders.

bound by the word "competitive" because this would conflict with their industrialization plans under their own regional arrangements.

Three problems remain in Committee IV:

1. Land locked countries.
2. A Chilean proposal on special preferential arrangements for building materials.
3. A Peruvian proposal for the establishment of an inter-American immigration commission.

General Economic Agreement

There was a lengthy discussion on negotiations for a resolution. Mr. Rubottom described our efforts to get an understanding with the Brazilians and Mexicans. The most difficult paragraphs of the Brazilian-Mexican draft, which we revised, are paragraphs 5, 6, and 7, especially 7. The plan has been to reach agreement with Brazil, Mexico, Colombia, and Argentina, with a view to asking Kreiger Vasena to call an informal meeting of heads of delegation.

The Mexicans and Brazilians concurred in the US revision of their draft except for minor changes. Subsequently, however, Hernandez Delgado (Mexico), on advice of Garcia Robles, reversed himself and objected to the phrase "fair and equitable" in paragraph 7 and asked that reference to private investment in paragraph 6 be removed. We offered tentatively to delete the latter part of paragraph 7 but insisted that private investment remain in paragraph 6. Last night the US Delegation cabled our Embassy in Mexico City requesting that the matter be taken up with the government there.

Paragraph 7 states: "The adoption of measures by both capital exporting and importing countries to encourage private investment, including measures for the reduction of tax obstacles and for the extension of fair and equitable treatment for such investments." Mr. Leddy pointed out that the word "equitable" carried very specific connotations for the Mexicans as indicated by the fact that this word was defined at the economic treaty of Bogotá (1948), and the Mexicans at that time entered a specific reservation.[2]

Considerable doubt was expressed in the US Delegation about the desirability of taking out the words "fair and equitable". It was pointed out, among other things, that the US retreat on this point will be headlined by the newspapers and Latins as a major US concession or change in US policy.

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[2] For text of the Economic Agreement of Bogotá, signed at the Ninth International Conference of American States, see *Ninth International Conference of American States, Bogotá, Colombia, March 30–May 2, 1948: Report of the Delegation of the United States of America With Related Documents* (Department of State Publication 3263, Washington, 1948), pp. 201–214. For text of the Mexican reservation to Articles 22, 24, and 25 of the Agreement, see *ibid.*, p. 214.

There was also discussion of the use of the word "expand" in article 6 concerning public capital. The consensus seemed to be, however, that this is in accord with general US policy. (The Department has suggested the word "provide" instead of "expand".)

Considerable sentiment was expressed in favor of our coming out openly at the Conference, stating that a treaty is impossible and advocating a resolution, especially if we do not get an understanding with the Mexicans promptly. It was pointed out that the majority of the Latin American countries would not support the Mexicans on the issue of equitable treatment to foreign investment. It was also cited that our continuing to debate in the four working groups of Committee I is accomplishing no useful purpose and is simply serving as an irritant.

Meanwhile the working groups are continuing today with their article by article discussions of the Secretariat's draft.

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158. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, August 31, 1957[1]

General Economic Agreement. Mr. Rubottom reported that he had seen the Mexicans and Brazilians. The Brazilians took our revision of paragraphs 5, 6 and 7 of the resolution as their own and gave it to the Mexicans, who were pleased with it except for minor observations. Alkmin called Krieger Vasena and got agreement to have a meeting at 6:30 p.m. yesterday. Five countries were represented at the meeting. Alvarez Restrepo (Chairman of Committee I) reported to Krieger Vasena on Committee I meetings yesterday and today. Alkmin gave Krieger a copy of the draft resolution. Alvarez Restrepo requested that a reference to a common market should be included in the declaration.

At the US Delegation meeting Mr. Rubottom commented that it would seem desirable to endeavor to meet this request. Mr. Leddy suggested some general language that might be included in numbered Paragraph 1 ("including regional and other cooperative measures").

Argentina, Brazil, Mexico, Colombia and the US are to contact the other delegations this morning. Mr. Rubottom will be seeing the

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[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel Meetings. Official Use Only. Drafted by Sanders.

delegations of Guatemala, Honduras and Cuba before the 10:00 a.m. meeting of Committee I.

At 12:30 p.m. today there will be a meeting of heads of delegations with Krieger Vasena. At that meeting 8 countries will know of the existence of the present US-Brazilian-Mexican draft. Krieger will express the view that a treaty is not possible. Alkmin and Alvarez Restrepo will make statements. The group will adjourn for lunch and to allow time for the preparation of a draft resolution. The latter will be discussed at a 7:00 p.m. meeting of all the heads of delegations.

A key problem is going to be the burial of the concept of a treaty. Ecuador wants to have the matter referred to the Quito Conference in 1959. A suggestion has been made in our delegation that the question of whether a treaty is possible should be referred to the Council of the Organization of American States for decision. It may be that a proposal will be made to open the treaty for signature. If the latter should happen, the US, of course, would not sign and would have to make a statement explaining its position.

Meanwhile Committee I has continued its article by article review of the Secretariat draft, and it may be that the Committee will complete its work today. The US has made a number of reservations. It is expected that the Mexicans will enter reservations on the provision for private investment in the draft. It was pointed out that the more Latin reservations there are, the better will be the likelihood of general acceptance of a resolution instead of a treaty.

Foreign Trade. Committee IV will complete its work today by tying up loose ends, such as a resolution about land-locked countries and one on building materials.

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159. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 31, 1957.

Soaec 58. Committee II on economic development completed work August 29 and nine resolutions approved at conference plenary session same day. Committee II returned to Coordinating Committee

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[1] Source: Department of State, Central Files, 365/8–3157. Official Use Only. Pouched to Washington.

proposal by Peru for creation of Inter-American Institute of Immigration.

All resolutions approved Committee II unanimously except Cuban proposal that IA–ECOSOC request study by IMF of foreign exchange problems associated with economic development. Colombians proposed amendment deleting specific time limit and suggestion that fund utilize Latin American monetary experts in study. Resolution in original form approved with Paraguay, Honduras and Colombia voting no, Dominican Republic absent and US abstaining in hope of further reconciliation differing views on procedure since everyone approved substance of resolution. Differing views were not reconciled prior to plenary session and at plenary US joined others in unanimous approval without change suggested by Colombia.

Major efforts of committee devoted to drafting omnibus resolution on financing of economic development. US emphasized greatest possible encouragement of private capital and technical skills and recognition with appreciation progress made under existing international financial institutions, as well as the expanded flow of private capital since 1954. Committee started with Chilean resolutions emphasizing further study of Inter-American Bank, Cuban proposal for 3-stage study of IA Bank, and Uruguayan proposal for specific series procedural steps to consider establishment new financial institutions. Peruvian representative especially helpful, Brazilian and Mexicans passive on whole. Chileans aggressive but not intransigent, Uruguayans less so. Brazilians approved resolution but made statement in committee referring to their recent suggestion at UN–ECOSOC that changes in world conditions during last 10 years made advisable review by United Nations of charters of IMF and IBRD to emphasize problems of less-developed countries.

Resolution recommended:

1. Study of financing of economic and social development of the continent as provided CPR resolution.
2. Convoking of specialized commission of governmental representatives to carry out study through IA–ECOSOC.
3. Transmittal of completed study to governments and further consideration of views of governments before additional procedural steps.
4. Financing of study under recommendation No. 27 of CPR.[2]
5. Appreciation for progress realized since 1954 by international credit institutions and also expanded flow of private capital in same period, noting desirability continuation of efforts carry out Resolution 63/54.[3]

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[2] See footnote 28, Document 134.

[3] Reference is to Rio Economic Conference Resolution ES–Res. 63/54, "Participation of International Credit Institutions in the Promotion of Economic Development in

(Continued)

6. That governments encourage to greatest possible extent flow of private capital and technical skills to Latin America.

Approved Mexican resolution requesting IA–ECOSOC take up with IBRD application lending policies mentioned 2d and 3d paragraphs of preamble to Resolution 63/54 and recommending that governments take appropriate action through their Executive Directors in IBRD consideration this matter. US made clear in committee that its agreement was to participate in discussions in IBRD Executive Board, but its substantive position on Bank's lending policies would be formulated after consideration views of IBRD management and other Executive Directors and would be expressed in Executive Board discussion. Mexican representative cooperative.

Tax treaty resolution approved unanimously with Uruguayan representative noting his government's basic position on desirability taxation in only one country. Resolution provides:

(1) Preparation preliminary draft of model treaty to prevent international double taxation on profits to be submitted member governments, taking into account Resolution 69/54[4] and Recommendation 9 of CPR[5] and other proposals to eliminate obstacles to international flow of private capital. Submission of draft text and governmental comments at 11th international conference, reconciling in advance differences of opinion wherever possible.

(2) Continuation efforts to conclude bilateral tax treaty and avoid delay because of drafting model treaty.

Also approved resolutions:

(1) Calling upon international credit institutions continue give attention to financing sound land reform and resettlement plans and appropriate technical cooperation;

(2) Two statistical resolutions urging action on Recommendations 1, 2, 3 and 12 of CPR[6] and resolutions of inter-American statistical conferences, and study of possibility of establishing committee on continuing statistics through IA Statistical Institute in collaboration IA–ECOSOC;

(3) Drawing attention to report by inter-American municipal organization and recommending that American States recognize and encourage municipal economic activities especially as to creation of local sources of employment and organization of inter-municipal associations for setting up public service enterprises;

(Continued)

Latin America," approved December 2, 1954; for text, see *Report of the United States Delegation to the Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council, November 22 to December 2, 1954, Quitandinha, Brazil* (Washington, 1954), pp. 60–61.

[4] Reference is to Rio Economic Conference Resolution ES–Res. 69/54, "Taxation and Tax Treaties," approved December 2, 1954; for text, see *ibid.*, p. 68.

[5] See footnote 10, Document 134.

[6] See footnotes 3, 4, and 13, *ibid.*

(4) Consideration by appropriate agencies to increase of funds for greater technical cooperation and industrial technological research.

Beaulac

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160. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 31, 1957.

Soaec 60. Committee III completed work August 30. Approved eight resolutions and decided no action warranted Bolivian proposal for legal measures assure certain immunities for assets of governmental banks in foreign countries because juridical nature that question.

Six resolutions approved unanimously. USDel especially pleased with Committee proceedings concerning surplus disposal programs and resulting resolution which recommends orderly procedure not unduly disturbing prices; countries continue mutual timely and effective consultation; and a continued attempt channel production to avoid creation and chronic accumulation surpluses. Satisfactory outcome surplus disposal discussion particularly gratifying because achieved without acrimony. Argentine representatives very helpful.

Greatest difficulty, as expected, developed in discussions fluctuations commodity prices, terms trade and international price stabilization. Debate finally produced two resolutions one of which was acceptable to US. This recommends IA/ECOSOC create permanent Committee on basic products for following purposes (a) study market factors; (b) study possible impact common European market; (c) submit results studies to interested countries; and (d) recommend when circumstances warrant meeting of governmental experts on production and marketing of products.

Other unanimously approved recommendations are: (a) Costa Rican proposal recommending IA/ECOSOC make preliminary study organization and operation of national agencies having programs agricultural products in member States and report findings to member governments; USDel doubts project has much value but considered inadvisable stand alone in opposition since study not harmful

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[1] Source: Department of State, Central Files, 365/8–3157. Official Use Only. Pouched to Washington.

and US readily able furnish information its programs. (b) Mexican proposal urging all American States not members Paris Union Convention[2] to adhere. (c) Proposal by Ecuador recommending regional center research diseases cocoa and banana and recommending Special Committee on Bananas continue work. (d) Proposal by Paraguay recommending member countries create zonal commissions study markets for common exports and advisable measures promoting exports and preventing deterioration in terms of trade.

US made reservations in Committee on two resolutions: One on "Terms of Trade" was approved by Committee on August 23, US not voting because English text not then available and translation in meeting made recommendation seem routine. Subsequent receipt and examination English text disclosed problem in wording one consideration as stated. US reopened question and proposed substitute sentence to avoid implication administrative determination of prices justifiable on grounds of equity. US proposal failed adoption by vote 7–9 with Mexico leading opposition. Outcome, therefore, resolution approved by Committee as originally submitted but US reserved position on text one stated consideration. USDel preparing statement for plenary explaining objections that part of text, although voting in favor of the recommendation that IA/ECOSOC determine and publish indices terms of trade.[3]

USDel objected another resolution, "Studies on Cooperative Measures for Stabilization Purposes," reserving position for statement in plenary. This resolution refers in preamble to interest in possibility of international credit scheme outlined by Chile which would have compensatory features in relation normal prices as determined by participating governments. Resolution recommends that proposed Committee on Basic Products in cases of special problems study measures for reaching commodity agreements and make recommendations to governments through IA/ECOSOC. Negative position taken by US in committee will be carried through by voting against this resolution in Plenary.[4]

Beaulac

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[2] Reference is to the Convention of Union of Paris of March 20, 1883, as revised, for the protection of industrial property (frequently referred to as the International Convention of Paris for the Protection of Industrial Property); for text, see 53 Stat. 1748.

[3] For text of the delegation's statement concerning Resolution XXXI, "Terms of Trade", see *Economic Conference: USDel Report*, p. 79.

[4] For text of the delegation's statement concerning Resolution XXXIV, "Studies on International Cooperation Measures for Purposes of Stabilization", see *ibid.*, p. 78.

161. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 31, 1957.

Soaec 61. Committee IV completed work August 31. Approved following six resolutions, five unanimously, one with Cuba reservation.

1. Latin American regional market. Declares advisability its establishment, gradually and progressively, in multilateral and competitive form and resolves principally to recommend to IA–ECOSOC participation with ECLA in studies and activities relating this subject.

Final resolution replaces six proposals introduced Argentina, Brazil, Chile, Mexico and Peru (two), none of which would have been fully acceptable to US in original form. Protracted debate in working group, with active US participation, centered questions nature eventual regional market and form reference to European Common Market. US, with frequent assistance Brazil, occasional support Cuba, Argentina, Mexico, Peru was able emphasize competition and that final form eventual regional market—which still needs much study—not be prejudged. Also eliminated any reference to possible "selectivity" by product or industry. US insisted reference ECM changed, from emphasis possible adverse consequences ECM and inference LA regional market desirable as defensive measure, to phrasing merely noting ECM may have repercussions depending upon nature its evolution. Resolution also notes ECLA Trade Committee work on payments and goal of multilateralism as part conditions favorable to creation regional market.

In final plenary session Committee, Central American countries, led by El Salvador reserved when they unable delete reference to competition. Finally, through efforts Brazil and Santa Cruz (ECLA) they agreed withdraw reservation, but enter in minutes of Conference statement they consider resolution does not affect Central American integration plans.

2. Promotion Inter-American Trade. Considering that elimination of trade and payments restrictions is conducive increase inter-Latin American, inter-American and world trade, recommends to LA governments, if they find advisable, enter into contacts gradually liberalize trade and payments in different regions of the area, with due regard international obligations. Resolution transformed from Uruguayan proposal for regional commissions among countries inter-

[1] Source: Department of State, Central Files, 365/8–3157. Official Use Only. Pouched to Washington.

ested in eventual economic integration. In final session Committee, Cuba entered reservation on grounds matter beyond instructions its delegation. Final decision, which might be favorable, awaits return delegation to Havana.

3. Encouragement of Low-Cost Housing. Asks OAS investigate on basis studies already made, whether trade restrictions on building materials constitute a major obstacle to development low-cost housing. If this found to be case, interested governments requested consider possibility lowering such restrictions with due regard international commitments. This result tortuous metamorphosis under US guidance from original Chilean proposal for regional market in construction materials.

4. Immigration. Recommends IA–ECOSOC study within two years problems immigration to LA. Substitutes for Peruvian proposal creation inter-American immigration institute along lines plan referred in Res. XIV of Bogota.[2]

5. Trade advantages for landlocked countries. Recommends governments study possibilities of reciprocal agreements which in conformity international obligations, would give trade advantages to landlocked countries. Replaces Paraguayan proposal calling for renunciation by member countries of MFN privileges for trade concessions negotiated by Paraguay and Bolivia.

6. Free transit for landlocked countries. Recommends governments give greatest possible free transit facilities for landlocked countries. Bolivian request for recognition right negotiate with other countries for ownership transport and communication facilities withdrawn in face firm general opposition couched in conciliatory language.

Committee IV regional market resolution considered one of major conference items by LA governments. USDel feels vigorous discussion in hammering out language resolution useful in conveying US views. Believe final text pleasing to LA governments, while not compromising principles economic integration emphasized by US.

Beaulac

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[2] For text of this resolution, see *Ninth International Conference of American States: Report of the Delegation of the United States*, pp. 238–239.

162. Telegram From the Ambassador in Argentina (Beaulac) to the Department of State[1]

Buenos Aires, August 31, 1957.

Soaec 59. Committee V finished its work August 28 and the six resolutions which it passed were approved by Plenary August 29. All resolutions were approved unanimously. Mexico abstained in Committee but not in Plenary on resolution covering Financing of Technical Cooperation Activities.

The most important resolution dealt with orientation and development OAS Technical Cooperation. It resulted from Working Group study of proposals by Brazil, Mexico and Cuba. Objectionable features and much of detail included in Brazilian and Mexican proposals eliminated. This proposal as passed contains nine paragraphs summarized as follows:

1. Certain general principles already approved in other documents.

2. Reiteration of support for CPR Recommendation 23[2] giving special emphasis to regular and continuing nature of program, establishment of Special Fund in Pan American Union budget to complement direct technical assistance and reference plan to be followed in transfer of existing Centers.

3. Reiteration of support for CPR Recommendation 22.[3]

4. Recommendation that COAS establish bases for creation Special Fund for donations. (Discussions in working group made clear in country committed to make any donation to this Fund but simply establishing channel through which OAS could accept donations, particularly from private foundations.)

5. Recommendation Secretary General coordinate activities contemplated paragraphs 2, 3, 4 above under one administration.

6. Recommendation IA–ECOSOC advance date on which annual pledges received in order make advance planning more effective.

Paragraphs 7 and 8 concerned coordination and paragraph 9 a recommendation that governments take steps through their representative on COAS and IA–ECOSOC to put above resolution into effect.

Principal controversy developed over question accounting for Host Country Contributions in open attempt draw down full amount U.S. offer without corresponding additions to Special Account. Final compromise resolution on Financing satisfactory USDel. It recommended States submit their opinions this subject to Secretary General before December 31 in order that COAS and

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[1] Source: Department of State, Central Files, 365/8–3157. Official Use Only. Pouched to Washington.

[2] See footnote 24, Document 134.

[3] See footnote 23, *ibid.*

IA–ECOSOC (a) study and propose means to permit earliest possible increase in contributions by Member States and (b) study advisability making such changes in budgetary structure as considered appropriate.

Other resolutions of minor importance: general one on initiation of new activities which took account numerous individual proposals this effect and recommended IA–ECOSOC and COAS consider them in an expansion of technical cooperation activities; request to COAS re funding housing center; recommendation to IA–ECOSOC re study and creation centers for promotion tourism; request to Board of Directors IAIAS take action as recommended in CPR Recommendation 1[4] on creation regional center for agricultural research in Temperate Zone, including Uruguayan offer of location.

Despite rather acrimonious debate at one point over question of Host Country Contributions, work of Committee V considered successful by USDel and final results harmonious.

Beaulac

[4] See footnote 3, *ibid.*

163. Summary Notes of a Meeting of the Delegation's Steering Committee, Buenos Aires, September 2, 1957[1]

General Economic Agreement

Mr. Rubottom reported that last Saturday[2] about seven hours were spent in two meetings with other Delegations on the Economic Resolution. Saturday night there was set up a draft committee composed of eight countries (US, Mexico, Brazil, Argentina, Costa Rica, Ecuador, Bolivia and Uruguay). The drafting committee met for over four hours last night. There was unanimous agreement on the procedures to be followed, except for Uruguay's opposition and Costa Rica's misgivings.

The procedure is to prepare two documents: (1) the Declaration and (2) a Resolution referring the matter of a treaty to the COAS. Last night Ecuador made a very helpful contribution in suggesting

[1] Source: Department of State, OAS Files: Lot 60 D 665, USDel Meetings. Official Use Only. Drafted by Sanders.

[2] August 31.

that the Resolution be a self-contained document, explaining why the treaty question is being referred to the COAS.

Mr. Rubottom pointed out that paragraph 2 of the Declaration is still open to question. Mr. Leddy said that Cuba is concerned about the possible effect of this paragraph on its sugar quota. Another problem is Bolivia's concern about freedom of transit. Also, Mexico is making an effort to have paragraph 5 split into two parts, separating public from private capital. Ambassador Dreier suggested, however, that Mexico will not actively press this matter.

At the meeting last night of the draft committee it was agreed to proceed this morning with the scheduled Conference Plenary session at 10:30 and to have a meeting this afternoon at 3:00 p.m. of the working group. It is expected that the group will complete its two documents this afternoon.

Mr. Metzger reported that Committee I had completed its work of reviewing each article of the Secretariat's draft treaty. Mexico opposed four articles. Uruguay opposed one and entered an understanding regarding a second. There was, however, no vote on the document as a whole.

The United States has submitted a written statement on each reservation that we had. It will be necessary to see the Committee report to verify that these statements actually appear in Committee I's final report.

Foreign Trade

There was a brief discussion of Committee III and Committee IV's work and the two statements which the US Delegate will make in this morning's Plenary on Committee III resolutions.

Coordinating Committee

At the Coordinating Committee meeting this morning Bolivia's resolution 74 on Central Bank assets will be discussed. It was suggested that our representative recommend to the Committee that Committee III's decision on this resolution be accepted as final, namely, that the Bolivian proposal is juridical rather than economic. Also, our position is that this is a bilateral matter between the US and Bolivia and not a proper conference subject.

Press Conference

It was agreed that there would be a Delegation press conference tomorrow. Mr. Phillips was asked to make sure that there are available the necessary suggested questions and answers.

Style Committee

Mr. Corliss reported that the Style Committee has completed its review of documents from Committees II, III, V and VI. He said that several changes have been made in the Spanish texts.

Ambassador Beaulac

Ambassador Beaulac suggested that we start preparations for the next Conference. He suggested that we make clear the things that we seek in Latin America and that the US position papers for the Conference serve as a basis of our public information output. He described the continual barrage of extreme ideas to which the Latin public is subjected.

[Here follows discussion of the work of the Conference's Coordinating Committee and Style Committee and a press conference scheduled by the delegation for September 3.]

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164. Editorial Note

In Soaec 66 from Buenos Aires, September 3, the delegation informed the Department of State that the Conference unanimously approved the Economic Declaration of Buenos Aires at the final plenary session. The telegram reads in part:

"Following Mexican-Brazilian-US agreement text presented heads other delegations over weekend by Argentine as own draft based on observations others. Four delegations plus strong support Colombia, Peru able hold revisions to minimum. Heads delegations also worked out, and approved tonight, resolutions sending articles of general economic agreement to Council of OAS for 'continuation of study' in consultation with IA–ECOSOC. Uruguayans, who initially strongly favored emphasis on continued negotiations agreement and opposed declaration, were finally brought around by Argentines and substantial unanimity other delegations.

"Believe these arrangements will pigeonhole treaty project for indefinite period." (Department of State, Central Files, 365/9–357)

For text of the Economic Declaration of Buenos Aires, see *Economic Conference: USDel Report,* pages 35–36.

165. Editorial Note

On September 4, a White House statement was issued by President Eisenhower at the United States Naval Base, Newport, Rhode Island, praising the delegates to the Buenos Aires Economic Conference for "reaching a large measure of agreement on the important economic problems confronting the American States." The full text of the statement is printed in Department of State *Bulletin*, September 30, 1957, page 359.

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166. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Snow) to the Secretary of State[1]

Washington, September 4, 1957.

SUBJECT

Outcome of Buenos Aires Economic Conference

The Buenos Aires Economic Conference, like several of its predecessors in the economic field, was held mainly in response to Latin American initiative and desires. Our Delegation faced the delicate task of resisting a series of unreasonable or unacceptable proposals while avoiding a wholly negative attitude and retaining the confidence and respect of the Latin Americans. Although the Conference did not yield binding commitments or solve any major problems, its resolutions do define the problems and point the way toward their solution.

The following are the most important subjects on which agreement was reached:

The Economic Declaration: This is essentially a constructive statement of broad objectives without specific commitments, time limits or details of implementation. Its acceptance enabled us to avoid being confronted with an economic convention which we could not have signed without a whole list of reservations unless it were to be reduced to rather pointless generalities. The United States Delegation succeeded in obtaining the inclusion in the Declaration of clauses

[1] Source: Department of State, Central Files, 365/9–457. Confidential. Drafted by Snow and Rosenson and concurred in by Willis C. Armstrong. A handwritten notation on the source text indicates that the Secretary saw this memorandum.

which recognize the importance of private investment and of sound monetary and financial policies. (A copy of the Economic Declaration is attached.)[2]

Financing of Economic Development: The resolution adopted on this subject reiterates in effect the recommendation of the Committee of Presidential Representatives to study proposals for regional financing institutions previously put forward by Cuba, Chile and Venezuela. The resolution recognizes the recent progress made by existing international credit institutions and the expanded flow of private capital. It also requests governments to encourage to the greatest possible extent the flow of private capital and technical skills. A related resolution asks for the continuation of efforts to conclude bilateral tax treaties.

Surplus Disposal: Our Delegation has indicated that it is especially pleased with the resolution on this subject. It recommends orderly procedures which will not unduly disturb prices; the continuation of timely and effective consultation; and continuing attempts to channel production so as to avoid the creation and chronic accumulation of surpluses.

Commodities: Of the two resolutions which emerged on this subject, our Delegation had to vote against one. We were able to agree to the one recommending the creation of a permanent Committee on Basic Products in the IA/ECOSOC which will study markets and, when circumstances warrant, propose meetings of governmental experts on the production and marketing of products. The resolution we voted against—our only negative vote—would have implied recourse to commodity agreements in certain circumstances, and had other objectionable features.

Regional Market: The relevant resolution declared that it is advisable to establish a Latin American regional market, gradually and progressively, and in a multilateral and competitive form. It resolved principally to recommend that the IA/ECOSOC participate with the United Nations Economic Commission for Latin America in studies and activities related to this subject.

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[2] Not printed.

167. Minutes of a Staff Meeting, Bureau of Economic Affairs, Department of State, Washington, September 11, 1957[1]

Kalijarvi, Presiding
Kirlin, H
Hamilton, R
Hefner, E
Vass, TRC
Deimel, TRC
Hall, E
Nichols, OR
Birch, OT
Dixon, OT
Donahue, E
Cefaratti, E
Corbett, OFD

[Here follows discussion of item 1, "Staff Changes".]

2. *Buenos Aires Conference* Leddy had been scheduled to make a report to the E Staff on the Buenos Aires Conference but he is ill so Kalijarvi asked Corbett, Nichols and Metzger to report on the various aspects.

Corbett said in general the atmosphere at the conference was good. The only discordant note was a speech by the President of IA–ECOSOC and his subsequent remarks to reporters which probably accounted for the adverse reports that appeared in the papers here about the conference.

Nothing specific was agreed of any consequence at the conference. Attention was focused on the proposal for a general agreement. It picked up many of the items that were studied in various committee operations. Corbett commented, and Metzger agreed, that these conferences require a great deal more study than has given them with regard to frequency, purpose, timeliness and the US attitude at the conferences. He pointed out that these countries have hobby horses they ride and things they want from us and we have nothing we want. It is hard to come to terms when we have nothing to bargain for. Corbett personally feels the US should avoid having these meetings except for the five-year ones which are required under the OAS and that, in the interim, we should try to get everything done through IA–ECOSOC or ECLA. A conference of the type just held, with the high level of representation, raises lots of hopes and expectations on the part of the governments and public in other countries.

The US delegation while large, was very good. Dillon was ill part of the time but he nevertheless was aware of what was transpiring and issued instructions. The people in ARA seemed to be content with the E area handling of their business. Kalijarvi said that both Waugh and Dillon were warm in their praise of the E people

[1] Source: Department of State, OAS Files: Lot 60 D 665, BAEC—Reference Papers. Secret. Prepared by Ruth S. Donahue, Chief of the Policy Reporting Staff.

who went to the conference and, while he had not yet talked with Rubottom, he expected to have a similar report from him.

Corbett was on the Economic Development Committee and he was generally satisfied with the way things went in that committee. Its principal item was the proposal for an inter-American bank. In Rio a resolution[2] was approved 20 to 1 which recommended the establishment of an inter-American bank. The US voted against it but they went ahead with procedures and worked up a project which, without US concurrence, failed. They started this all over again at Buenos Aires. There were three resolutions, quite narrow in scope, all dealing with the organization. We took these and made a new one which bore little resemblance to any of the three original ones. In the "whereas" clauses we established that some countries do not favor a new financial institution and some do, that existing institutions are doing quite well, that private capital is flowing quite freely. Given the interest in financing economic development, it was resolved to study the matter under the terms of reference set up under the Committee of Presidential Representatives' resolution on the same subject, including financing and including specific proposals for a new institution and the US position that none was needed. Therefore, Corbett said, it was clearly established that the US thinks a new institution is not necessary but will study financing of economic development. Some people interpreted this as an advance; others felt we hadn't done any more than before and that we will just keep on talking for years. All countries were called on to take measures which would encourage private investment and appreciation was expressed for the increase in lending since the last conference. We are now faced with having a study by a committee of governmental experts but, Corbett added, we have done that before.

There were a number of other resolutions before this committee, only one of which Corbett considered worth mentioning at this meeting. It was a Mexican resolution calling for a change in policy of the IBRD respecting loans for economic development. We got this changed to an agreement to have a discussion of this subject in the IBRD, to which all the countries belong, and to have this brought to the attention of IBRD by IA–ECOSOC. We made clear we don't know what the US position will be on this. The resolution in no way commits us to support a change in Bank policy. The Bank hasn't found the circumstances right in Latin America for the kind

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[2] Reference is to Rio Economic Conference Resolution ES–Res. 62/54, "Study of a Plan for an Inter-American Financial Organization", approved December 2, 1954; for text, see *Report of the United States Delegation to the Meeting of Ministers of Finance or Economy*, pp. 58–59.

of Bank action Mexico advocates although it has in Italy, Australia and in Iran.

The Technical Assistance Committee had only one problem, Corbett said, and that was an effort on the part of Brazil and a few other countries to include as a part of their contribution certain local expenditures they make as host countries. That would have reduced the budget but we were successful in knocking this down.

The Committee on Transport had some problems but Corbett said he didn't know enough about them to report on them.

Metzger then spoke about the general agreement, which he termed a re-hash of the Bogota exercise. At Bogota, he recalled, an agreement was signed but it was so loaded with reservations that it never came into being. The positions of the countries at this conference were the same as they had been at Bogota. The Secretariat had, in Metzger's opinion, rendered a real disservice by presenting a draft agreement as the basis for discussion which was hopeless as it was loaded against the US. It also contained some things that were not acceptable to other countries, particularly Mexico. The objective was to force the US out in the open and have it take the blame for an agreement not being reached. We got it on record, however, that Mexico and others wouldn't accept a lot of the proposals either. A number of countries which wouldn't have agreed to some of the proposals just said nothing because they knew nothing would come of it. There was no country there except Uruguay, which really thought an agreement was possible at Buenos Aires. The US thought that there should be a general declaration instead of a treaty. That came to pass but not before we had been forced through the paces of the arguments with regard to the agreement and not until the final week of the conference.

Metzger felt that progress had been made in some respects. At Bogota we reserved our position on some articles and not on other articles that we should have because we didn't want to have too many reservations. At Buenos Aires we opposed everything with which we couldn't go along and made short speeches saying why we opposed. That was helpful as it left the resolution a study and nothing more by IA–ECOSOC and had a good deal to do with the "burial nature" of the final resolution. Metzger doubts if a real effort will be made to schedule this at the Quito conference in 1959, which is the regular conference provided for under the OAS. In the process, Metzger said, we tried to minimize the difficulties we had with such things as the Calvo Doctrine. (Mexico holds that if it expropriates the oil industry in Mexico and decides to pay Mexicans zero that is all it would have to pay US owners and that there is no recourse.) The Mexicans knew what we would say and we knew what they would say.

Nichols then reported on the trade committees which he attended. Before the conference we had expected that foreign trade would be one item but it was decided to have two trade committees and each of them had before it lots of resolutions. One committee dealt with commodity problems and the other on inter-American trade, focusing on a common market or regional trading arrangement.

In the commodity field one of the principal subjects was surplus disposal (which really concerned the US PL–480 program, particularly Title I). Both Argentina and Mexico had in mind a resolution referring specifically to PL–480 which would have involved some criticism and set up some things hard for us to meet, such as prior consultation. Unless prior consultation is well defined, Nichols pointed out, we wouldn't know if we were meeting the requirements. Nichols was pleased with the way this came out. Certain parts of the Mexican and Argentine resolutions were used which said that the US was already handling the matter in these ways and this was unanimously approved without discussion. Argentina really went out of the way to be helpful.

On other commodities, the conference started out with several delegations being very exercised about lead and zinc and possible US action on imports. Chile brought up copper as prices are sliding and now we are near the point where the two cent export tax may come on again. This is the first time there has been a possibility of that tax coming back on and it has to be taken seriously. There were some other resolutions designed to aid other metals and others not confined to metals but which would include cocoa, coffee and the whole range of agricultural commodities. In the effort to consolidate these resolutions it became clear that the Latin American countries want to have a standing body devoted to commodity problems. They felt there should be a regional approach to this, and there was no possibility of talking them out of it. Insofar as a standing committee under IA–ECOSOC to study consumption, production, market situation and arranging for discussions of governmental exports, the US was prepared to go along. However, it was not prepared to give consideration to international price stabilization measures. Finally all material was put into two resolutions. There will be a committee of IA–ECOSOC to study the basic products but not to include price stabilization. Any member of OAS may be on it. The US supported this resolution. The other resolution gives to the same committee the function of considering commodity agreements, promoting them when it considers it desirable. The preamble mentions the type of plan Chile is interested in—some sort of an international credit from which countries can draw when receiving below normal prices for exports and to which they should make

repayments when prices are above normal. We insisted that this was less practical than almost any plan that had been mentioned and we did not want to see it mentioned in the resolution. However, this is the only plan that the resolution spelled out in detail, although it made mention of other proposals. The US voted against this resolution and made a statement in the plenary. All other countries voted in favor of it. Those two resolutions mean that a committee will be established under IA–ECOSOC and fairly soon the US will have to decide if it will participate in the committee. We stated that we assumed any Government that came into the committee was free to leave it at any time or free to participate in only those functions which it could support. The US could go into the Committee, Nichols said, but be free to have nothing to do with its functions which involve commodity agreements.

In the other trade committee the most interesting subject was the common market and a resolution was approved which encourages further study. It doesn't specifically give ECLA the lend by comparison with IA–ECOSOC but that is the intention. Latin American countries want coordination between the two but think they are more likely to have advantages through ECLA. The resolution is in general terms, encouraging studied looking toward multilateral competitive arrangements through gradual integration steps. Nichols said that the US attached great importance to getting the word "selective" out of the resolution and was successful but that he wasn't familiar enough with this to explain the importance.

[Here follows discussion of items 3–13, "Aviation", "GATT", "Canada", "Japan", "Trade Agreements Legislation", "Trade Restrictions", "FCN Treaties", "Lead and Zinc", "PL–480", "French Aircraft Loan", and "SUNFED".]

168. Current Economic Developments[1]

Issue No. 528 *Washington, September 17, 1957.*

OAS Economic Conference Successfully Concluded

The Economic Conference of the Organization of American States, which was held in Buenos Aires August 15 to September 4, reached a high degree of accord in resolutions on important and traditionally controversial subjects in inter-American economic relations. The US was faced with the delicate task of resisting the customary Latin American requests which it cannot accept, such as an Inter-American Bank, price stabilization and parities, and at the same time of maintaining a positive attitude and retaining Latin American confidence. Our delegation was successful in doing this and in getting unacceptable resolutions reworded in such a way that there was unanimity on all of them except one on commodity agreements which the US had to vote against. No policy commitments of any consequence were agreed. Attention was centered on the proposal for a general economic agreement but, when it became clear that it was impossible to negotiate such a treaty at Buenos Aires, a broad declaration of basic principles of economic cooperation was unanimously passed. Another resolution, which was generally hailed as a positive and forward looking step, endorsed the ultimate establishment of a Latin American regional market and recommended further study of this subject.

While the conference ended successfully from the US viewpoint in that we avoided commitments which the Latin Americans desired but which we could not make, it points up questions concerning the frequency, purpose and timeliness of such conferences. There can be no doubt that a conference of this type, with the high level of representation it commanded, raises hopes and expectations on the part of Latin American Governments and people. There is now a feeling in official US circles concerned with Latin America that it might be better to hold more specialized inter-American conferences to attack specific problems such as trade rather than the general omnibus type of conference held in Buenos Aires.

The Economic Declaration The Economic Declaration of Buenos Aires, as it emerged during the last week of the conference, is essentially a constructive statement of broad objectives without

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[1] Source: Department of State, *Current Economic Developments:* Lot 70 D 467. Secret. A cover sheet and table of contents are not printed. *Current Economic Developments* was a semimonthly classified periodical prepared in the Bureau of Economic Affairs for internal use as a background and policy guidance report for policy-level officers of the U.S. Government serving in the United States and abroad.

specific commitments, time limits or details of implementation. Its acceptance enabled us to avoid being confronted with an economic convention which we could not have signed without a whole list of reservations unless it were reduced to pointless generalities.

At the Bogota Conference of 1948 an economic agreement was signed but it had so many reservations, from other countries as well as the US, that it never came into being. The positions of the countries at this conference were about the same as they were at Bogota. The draft agreement which had been prepared by the OAS Secretariat was based on resolutions and declarations made in the inter-American system since 1889 and contained much that was included in the Bogota Agreement. From this standpoint, this Secretariat draft was hopeless as it was full of commitments to which we could not agree. It contained some things that were unacceptable to other countries, particularly Mexico, and it was with the help of those countries that the substitute declaration was drafted and approved. This did not come about until it became apparent that an economic agreement was not possible. Even after negotiations on the declaration had been started, the Conference Committee on the General Economic Agreement continued pro forma article-by-article negotiations and came up with a draft agreement with negative votes on nine articles by the US, four by Mexico and abstentions and reservations by Chile and Uruguay. US reservations on the agreement were in connection with articles on matters which have traditionally caused difficulty, such as treatment of private investment, stabilization of prices of basic commodities, financing of economic development, disposal of surpluses, and national merchant marines. This exercise, however, proved useful as we left the Latin American countries in no doubt where we stood on all issues and since it showed the US was not the only country blocking unanimous agreement. It was thought that some countries refrained from making their reservations known in the belief that agreement, in any event, would not actually be reached.

US action at Buenos Aires was in contrast to Bogota where we reserved on the articles most important to us but did not reserve on some others that we did not really like because we did not want to have too many reservations. This forthright position of the US at Buenos Aires had a good deal to do with the "burial nature" of the final resolution which referred to the OAS Council further consideration of the agreement. It is not expected that the Council will be able rapidly to conclude an agreement which has so long been under consideration and it is considered unlikely that an economic treaty will be scheduled for the agenda of the 1959 Quito conference. While some of the Latin American countries attached considerable importance to a general economic agreement, Uruguay and Costa

Rica were the only countries which really believed almost to the end that one could be negotiated at Buenos Aires. All of the Latin American delegations seemed satisfied with the results of the conference on this issue.

The declaration reiterates the intention of governments to maintain conditions which promote the maximum economic growth of each country through attainment of high and stable levels of real income, employment, and consumption, in order that all their peoples may be adequately fed, housed, clothed, and have access to the services necessary for health, education and general well-being. For the realization of these principles and purposes the unofficial English text shows that it is the declared purposes of the governments to promote the following. 1) Expansion of trade among themselves and with other nations, on a mutually advantageous basis, including cooperative measures necessary for its attainment. 2) Reduction of barriers to inter-American and international trade, taking into account the measures which may be necessary in the light of the economic conditions and requirements of each of the American states or of several of them among themselves. 3) International cooperation, either through intergovernmental consultations or through other arrangements which may be agreed upon, relating to the problems of basic or primary commodities whose prices may be subject to excessive fluctuations, and relating to the orderly disposal of surpluses in a manner which will not unduly disrupt international trade. 4) Adoption of measures to facilitate the acquisition and exchange, for their mutual benefit, of capital, machinery, raw materials, techniques, and other material elements needed for their economic requirements. 5) Intensification of efforts, individually or through international financial institutions, to expand the flow of public capital to the countries of the American continent through the extension of credits for the sound financing of investments considered essential to development, and to encourage private investment therein, in order to promote their economic development and strengthen mutually beneficial economic relationships among the American countries. 6) Continuation of efforts toward the achievement of sound monetary and financial conditions. 7) Intensification of national and international efforts to improve, develop and utilize efficiently their means of transportation and communication. 8) Conclusion of agreements by the interested governments to facilitate free transit for landlocked countries for the purposes of their trade. 9) Effective support, through the OAS and appropriate international agencies, or directly between themselves, for technical and scientific cooperation programs which, taking into account the corresponding national or regional plans, may contribute to the acceleration of economic development and the improvement of the standards of

living of the peoples of the continent. 10) Strengthening of the IA–ECOSOC so that it may respond fully to the purposes and functions assigned to it by the Charter of the Organization of American States, act as a coordinating organ of inter-American official activities in the economic and social field, and deal effectively with the consultation which the states may initiate with it for the prevention of difficulties or solution of economic problems.

With regard to encouraging private investment, the American representative pointed out in the plenary session that for foreign capital to flow in large amounts, it must have reasonable expectation of fair and equitable treatment. "The US assumes," he said, "that foreign private capital will receive such treatment which should promote a constantly expanding flow of investment in the economic development of all of the Americas."

Latin American Regional Market The question of Latin American regional markets was one of the most debated at the conference. The result was an acceptable resolution declaring the advisability of establishing a Latin American regional market, gradually and progressively, in multilateral and competitive form, and recommending that the IA–ECOSOC and the ECLA pursue their studies and cooperate closely with one another on this subject. The resolution doesn't specifically give ECLA the lead in comparison with IA–ECOSOC but that is the intention of the Latin American countries, who regard ECLA as the more effective of the two organs for this purpose from their point of view. The resolution does note the ECLA Trade Committee work on payments and the goal of multilateralism.

The final resolution in the trade group replaced six proposals, none of which would have been fully acceptable to the US in original form. The protracted debate in the working group, with active US participation, centered around questions as to the nature of the eventual regional market and referred to the European Common Market. The US, with assistance from Brazil and other countries, was able to emphasize competition and that the final form of the eventual regional market—which still needs much study—not be prejudged. Our delegation was also successful in getting eliminated any reference to possible "selectivity" by product or industry. The US succeeded in changing the reference to the European Common Market from implying possible adverse consequences and inferring that the Latin American regional market would be desirable as a defensive measure, to merely noting that the European Common Market may have repercussions on Latin America depending on the nature of its evolution. Our delegation felt that the vigorous discussion in hammering out the language of this resolution was useful in conveying US views. The final text, which was pleasing to Latin

American Governments, did not compromise the principles of economic integration emphasized by the US.

Five other resolutions in the field of inter-American trade were unanimously approved. One of these, considering that elimination of trade and payments restrictions is conducive to an increase in inter-Latin American, inter-American and world trade, recommends to Latin American Governments, if they find it advisable, to enter into contracts gradually to liberalize trade and payments in different regions of the area, with due regard to international obligations. This resolution was transformed from a Uruguayan proposal for regional commissions among countries interested in eventual economic integration. Instead of a proposal for a regional market in construction materials, a resolution was adopted asking the OAS to investigate whether trade restrictions on building materials constitute a major obstacle to development of low cost housing. If so, interested governments are requested to consider the possibility of lowering such restrictions with due regard for international commitments. Another resolution recommends that IA–ECOSOC present within two years to member governments a completed study on the problems of immigration to Latin America. Others recommend that governments study the possibilities of reciprocal agreements which, in conformity with international commitments, would give trade advantages to landlocked countries, and that governments give greatest possible free transit facilities for landlocked countries.

Commodity Problems One of the principal subjects in the commodity field concerned disposal of agricultural surpluses, with resolutions proposed which were really aimed at the US PL–480 program. Our delegation was especially pleased with the outcome, which was a resolution entirely acceptable to us. It recommends orderly procedure not unduly disturbing prices; that countries continue mutual timely and effective consultation on their disposal of surpluses; and a continued attempt to channel production to avoid creation and chronic accumulation of surpluses. The Argentine delegation was particularly helpful in resolving this issue.

The greatest difficulty in the commodity field, as expected, developed in discussions of the fluctuations of commodity prices, terms of trade and international price stabilization. When the conference opened there was considerable concern about specific commodities. The possibility of US legislation on lead and zinc was very disturbing to Mexico, Peru and others, but this tapered off when it became evident Congress would not take action this session. Chile was extremely concerned at the slide in copper prices which are now near the point where the two-cent export tax may come on. A plethora of proposals in this field was finally reduced to two major resolutions. The US found acceptable one of these, which would

establish a standing committee to consider commodity matters. Our delegation voted against the other which looked toward the formulation of international agreements to stabilize the prices of basic products. This one was designed at US insistence to select out from the previously-mentioned resolutions those matters to which the US could not agree. The US also reserved on one of the "Whereas" clauses of a resolution regarding terms of trade which indicated that it was of great importance to the Latin American countries to be able to count on an equitable relationship between the prices of exports and the prices of the products they import as this implied Government control of prices.

The resolution on commodity matters which was unanimously accepted recommends that IA–ECOSOC create a permanent Committee on Basic Products which will study markets and, when circumstances warrant, propose meetings of governmental experts on the production and marketing of products. The resolution the US voted against recommends that this Committee on Basic Products in cases of special problems should study measures for reaching commodity agreements and make recommendations on them through IA–ECOSOC when it thinks this desirable. This resolution refers in the preamble to interest in the possibility of an international credit scheme (outlined by Chile) from which countries can draw when receiving below-normal prices for export of their primary commodities and to which they should make repayments when prices are above normal. The US pointed out that this proposal was even less practical than other commodity stabilization plans that have been suggested. Our delegation stated that it assumed that any government which joined the committee was free to leave it at any time or that it was free to participate only in those functions which it could support. The US will now have to decide whether it will become a member of the new committee. It would appear that we could participate in the functions outlined by the first resolution and not take part in any of the committee's functions which involve commodity agreements.

A number of other resolutions were passed unanimously. These include a recommendation that IA–ECOSOC make a study of the national agencies having programs for agricultural products in the member states and report its findings to OAS governments; a recommendation that a regional center do research on diseases of cocoa and bananas; that the Special Committee on Bananas continue work; and that member countries create zonal commissions to study markets for common exports and measures for promoting exports.

Financing Economic Development The principal item in the economic development field was the perennial proposal for an inter-American bank. Three resolutions were proposed in this regard all aimed at

creation of such an institution. Our delegation, with the informal aid of Peru in the working group, was successful in drafting and securing unanimous approval of an omnibus resolution on financing of economic development to replace the other proposed resolutions. It reiterates, in effect, the recommendation of the Committee of Presidential Representatives that a study be made of the problems of financing economic and social development, giving consideration to proposals for special regional financing institutions and to the US view that greater progress would be achieved by using existing institutions. The study will be made, it was agreed, through the IA–ECOSOC by a commission of governmental experts. The resolution expresses appreciation of the recent progress made by existing credit institutions, especially the Eximbank, and the expanded flow of private capital. It also requests governments to encourage to the greatest possible extent the flow of private capital and accompanying technical skills. A resolution calling for development of a model international tax treaty asks for the continuation of efforts to conclude bilateral tax treaties to eliminate double taxation.

The Mexicans introduced a resolution implying mild criticism toward implementation of the Rio resolution on local currency and general development financing (as opposed to project financing) by the International Bank in special cases. In the background was the Mexican desire to obtain loans outside of particular projects in support of development and to purchase certain items locally with such loans. The IBRD loans to Southern Italy and Australia were cited as a precedent. This resolution was changed to a request that IA–ECOSOC bring this to the attention of the International Bank so it could be discussed there. The US made clear that its position on IBRD lending policies would be formulated after consideration of the matter in the Bank and that its approval of the resolution did not signify a commitment to support a change in Bank lending policy.

Other resolutions in the economic development field urged that international credit institutions continue to give attention to financing sound land reform and resettlement plans and appropriate technical cooperation; that appropriate agencies consider increasing funds for greater technical cooperation and industrial technological research; that the possibility be studied of establishing a committee on continuing statistics through the Inter-American Statistical Institute in collaboration with IA–ECOSOC; that the importance of encouraging municipal economic activities to create local sources of employment and to set up public service enterprises be emphasized; and that the IMF make a study of the effects of inflation upon development programs and foreign exchange resources.

Other Matters In the field of technical cooperation the Latin American countries made an effort to get a larger US contribution to the OAS program. The result was agreement that the OAS should study ways to promote a larger program with larger contributions by all member states. A number of resolutions in the technical cooperation field endorsed the recommendations of the Committee of Presidential Representatives.

The key problems discussed in the Committee on Transportation were freedom of transit for landlocked countries and the development of the River Plate basin. The IA–ECOSOC was asked to undertake studies on these and related topics, such as freight and insurance rates, standardization of statistical data on the arrival and departure of ships and the use of identical forms.

[Here follows discussion of other subjects.]

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169. Letter From the Deputy Assistant Secretary for International Labor Affairs, Department of Labor (Werts), to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, October 3, 1957.

DEAR DICK: I thought it would be interesting and profitable to get the reaction of Serafino Romualdi of the AFL–CIO to the recent Buenos Aires Economic Conference and to the opportunity given him to serve on our delegation. Accordingly, I arranged to have lunch with him in order to talk about these matters. Juan de Zengotita, who as you know is an FSO serving as OILA's Area Specialist for Latin America, joined us. The results of the meeting with Mr. Romualdi I enclose in a Memorandum of Conversation.[2]

Let me say, to begin with, that there is no exaggeration in this Memorandum of Mr. Romualdi's admiration for the job that Mr. Waugh and yourself did at Buenos Aires and for the efforts and achievement of your technical staff.

One aspect of Mr. Romualdi's observations I should like to comment on quite frankly, both because it is in itself important and because it involves a consideration with which those of us in the

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[1] Source: Department of State, Central Files, 355/10–357. Confidential.
[2] Not printed.

Department of Labor who deal with U.S. foreign economic relations have been impressed for some time. I refer to what Mr. Romualdi has to say with respect to the apparent prevalence among our delegation during the first two weeks of the Conference of the view that the efforts of the United States at Buenos Aires should be directed mainly at proclaiming the advantages of having private capital finance the trade and development of Latin America. Mr. Romualdi was of the opinion that while this view was of course sound, the almost exclusive emphasis given it in our delegation's earlier activity at Buenos Aires was definitely harmful to the United States position at the Conference. He felt, also, that the successful conclusion of the Conference was not assured until that emphasis had been modified.

In the meetings to draw up and consider the position papers for the Conference held here in Washington among representatives of the interested agencies, this Department expressed its complete agreement with the fundamental positions taken but its definite disagreement with the language in which some of the more important papers were couched and with the attitudes that that language seemed to reflect. Thus, for example, this Department felt that the position paper on "Financing Economic Development—Public Capital" could not but have an unfortunate effect among Latin Americans. The paper demonstrated very eloquently how much the U.S. was actually doing through public finance to help Latin American economic development; at the same time virtually the opening statement of that paper (numbered paragraph one) bluntly stating our faith in private capital and placed before the eloquent demonstration I have alluded to, must, in our opinion, act like a dash of cold water on the Latin Americans and serve to nullify the very favorable impression that would undoubtedly have been made by the balance of the paper, if numbered paragraph one had been modified just in its language. I appreciate, of course, that a position paper is merely a brief and that a skillful negotiator draws on other resources in setting the tenor of his remarks; but I notice that Mr. Romualdi seemed to feel that the change in the U.S. attitude, and concomitantly U.S. fortunes, at Buenos Aires was linked to a change in the position papers.

On a number of other occasions over the last few years representatives of the Department of Labor have been similarly struck, in participating in the preparation of position papers for international economic meetings or conferences, by the tendency of those papers to emphasize the negative aspects of our position vis-à-vis other states. This tendency, in our opinion, is generally evidenced in such a manner as to nullify, at least psychologically, the more considerable positive aspects of the papers. If Mr. Romualdi's interpretation

of the way things went at Buenos Aires is correct, the progress of that Conference would seem to have afforded what we in the Department regard as a very apt commentary on this weakness in our Government's usual position.

In transmitting the Memorandum of our conversation with Mr. Romualdi I felt duty-bound to tell you of how his impressions bear out our feelings that political considerations of the kind that, in his view, you so ably put in play in Buenos Aires, should be given greater weight in our handling of international economic matters than they seem generally to be accorded.

Because of the importance in respect of all our international economic activities that I attach to Mr. Serafino Romualdi's observations on the Buenos Aires Conference, I am taking the liberty of sending a copy of the Memorandum of Conversation and of this letter to Assistant Secretary of State Wilcox. Similarly, I enclose with this letter a copy of my letter to him of the same date, which contains further comments that may be of interest to you.

Sincerely,

Leo

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170. Instruction From the Secretary of State to All Diplomatic Missions in the American Republics[1]

CA–3710 *Washington, October 21, 1957.*

SUBJECT

Proposed Inter-American Economic Agreement: Resolution 2 of the Buenos Aires Economic Conference of the OAS

A major item on the agenda of the Economic Conference of American States, held at Buenos Aires, Argentina, August 15 to September 4, 1957, was the negotiation of a general inter-American economic agreement. For over two years the representatives of the American countries on the Inter-American Economic and Social Council had endeavored to draft such an agreement: first through an ad hoc working group, then through the Council's Executive Committee, and finally through a committee charged with preparing for the Buenos Aires Conference. None of these bodies succeeded in

[1] Source: Department of State, Central Files, 365/10–2157. Confidential. Drafted by James Corliss and Ambassador Dreier; approved by Assistant Secretary Rubottom.

producing a draft text upon which the representatives could agree as suitable for transmission to the Buenos Aires Conference. Finally, in January of this year, the Council requested its secretariat to attempt a new draft, giving due consideration to the work already done by representatives on the Council. The secretariat's draft was presented for discussion by the Council's special committee preparing for the Buenos Aires Conference. Despite several weeks of discussion, however, agreement could not be reached upon acceptable texts relative to many important matters treated in the secretariat draft. Some of the representatives, including that of the United States, proposed substitute texts for various articles; others reserved the right of their delegation to comment or propose changes at the Conference. The Inter-American Economic and Social Council finally, on July 8, decided to transmit the secretariat draft, as modified by the Council, to Buenos Aires, together with the alternative texts proposed by its members up to that time; those proposals are contained in document 12 of the Buenos Aires Conference.

At Buenos Aires the work on the economic agreement was entrusted to five subcommittees of Committee I. Members of the U.S. Delegation worked faithfully with members of other delegations in an effort to arrive at an acceptable text. A considerable measure of agreement was achieved, although much of this pertained to general principles regarding which there had previously been little disagreement as to substance. But the United States was unable to accept nine articles; Mexico, four; Chile, Peru and Uruguay, one each. The articles which these delegations could not accept usually involved principles which, in the opinions of the delegations at least, are of fundamental importance. The reservations relative to these unacceptable articles were indicated at the final plenary session of Committee I.

Meanwhile, as it became apparent that no agreement could be negotiated that would be acceptable to all countries, the delegations adopted a Declaration of Principles which became Resolution 1 of the Conference. Resolution 2, requesting the Council of the OAS to continue efforts to negotiate an economic agreement, was then also adopted to satisfy those who did not wish to permit the idea of an agreement in treaty form to die.

Resolution 2 was carefully worded to avoid a mandatory order to the Council of the OAS to proceed immediately with the negotiation of an economic agreement, it being the view of at least several delegates, including the Delegation of the United States, that such efforts were, for the present, at best of questionable value. As indicated above, the articles regarding which reservations were entered, usually involved fundamental principles upon which it appears

doubtful that a real meeting of minds could be achieved. Political as well as other factors play a part in this, of course.

However, there are indications that some Latin American governments may shortly take the initiative to press for resumption of efforts to conclude an agreement in the Council pursuant to Resolution 2. One indication of this interest was the recent speech of President Ponce of Ecuador, who, in commenting on various aspects of the Eleventh Inter-American Conference which is to be held in Quito in 1959 or 1960, expressed the hope that the Council would by that time have completed its work on an economic agreement which could be signed at the Quito Conference.

The basic reasons for the Department's objection to the resumption of efforts to negotiate an inter-American economic agreement are, of course, substantive. The fundamental objective of the Latin American countries in seeking such an agreement is to commit the United States to certain policies which it is not prepared to accept: notably, an obligation to support the prices of raw materials; a commitment to provide increased public financing for economic development; an obligation to consult prior to disposing of agricultural surpluses or before imposing any restriction on the sale of Latin American products in the United States market, etc. At the same time, the desire of the United States to get the Latin American countries to obligate themselves to take certain measures to protect private investment has met with opposition on their part. The fundamental divergence of view between the United States and Mexico on this last-mentioned subject is alone sufficient to prevent the successful conclusion of any inter-American economic agreement so long as the present policies of those governments continue.

Consideration has been given to the possibility of adopting a short and more general form of inter-American economic agreement in order to satisfy the wishes of the Latin American governments to have a juridical document in the economic field that would constitute a companion piece to the Treaty of Rio de Janeiro in the political-security field. However, efforts of the United States at the Buenos Aires Conference to promote a project of that kind that would be acceptable to this government met with no success, since such a document would not contain certain ideas which the Latin American governments greatly cherish in the field of economic cooperation. Also, even a short and general treaty would have to contain certain provisions regarding private investment which we know would prove unacceptable to certain Latin American governments. Any document acceptable to all the Member States, indeed, could differ but little from the Economic Declaration of Principles, to which all the delegations agreed at Buenos Aires.

In view of the very clear evidence of the situation described above that was given by the negotiations at the Buenos Aires Conference, confirming a long history of futile negotiations ever since the Ninth Inter-American Conference at Bogotá in 1948, the Department believes that a number of individuals in many Latin American governments are beginning to appreciate the futility of carrying on efforts to negotiate an economic agreement in treaty form. The Department very strongly agrees with this point of view and feels that it is highly desirable to take such steps as may discreetly be taken to discourage any thought of initiating work immediately in the Council of the OAS on the negotiation of an economic agreement, or to put that subject on the agenda of the Eleventh Inter-American Conference to be held in Quito. Diplomatic officers are therefore urged to take any appropriate opportunity that may be offered to discourage, whether on the part of official or private citizens, the thought that an inter-American economic agreement should be expected within the foreseeable future.

Although the United States cannot, in view of its approval of Resolution 2 of Buenos Aires, oppose any consideration of the subject in the Council of the OAS, we can argue against rushing blindly into a repetition of the same frustrating negotiations that have gone on heretofore. The position the United States would take would probably be to urge that the COAS first ascertain the timeliness of a renewed study before entering into substantive consideration of the proposed agreement.

In further support of the basic position set forth above of questioning the usefulness of an economic treaty such as was proposed at Buenos Aires, the following arguments may be found useful:

1. The value of an inter-American economic agreement such as has been envisaged would be more illusory than real. Governments are prepared as a matter of policy to extend economic cooperation to other members of the OAS in excess of what they are prepared to commit themselves in treaty form to undertake. For example, the United States has undertaken, and continues to undertake, a broad program of economic cooperation involving public loans for the economic development of the other American republics, but is not prepared to sign a treaty obligating itself to such action at any given level. Other governments do in fact extend favorable treatment to private capital without being in a position to sign a treaty committing themselves to a specific course of action in that regard. The lack of an economic treaty does not, therefore, prevent or interfere with constructive economic cooperation among the American states.

2. Economic cooperation concerns the circumstances and conditions within each of the American republics. These conditions are subject to change both under the influence of outside forces and under the influence of the very improvements which are the objec-

tive of economic cooperation. Any attempt to stipulate in treaty form the ways in which all forms of economic cooperation should be carried out presents the serious danger of establishing a rigid system of operation to cope with conditions that inevitably change. Such a rigid system might well become a stumbling block rather than an aid to real economic progress.

3. In view of the fact, that is recognized by all concerned, that the United States is the principal source of economic assistance and the twenty Latin American countries generally share a position seeking such assistance, the question of what kind of economic cooperation can suitably be carried out through multilateral channels and what kind through bilateral channels remains to be clarified. Every other American government will recognize the importance of bilateral relations in the economic field with the United States. The bilateral relationship permits a realistic approach to the individual economic problems of each country. To be sure, there are certain basic problems common to most, if not all, the American countries and on certain problems multilateral cooperation provides an effective and excellent approach. However, it is easy to exaggerate the significance of a multilateral approach to all economic questions, such as has been envisaged in an inter-American economic agreement.

4. It is clear that the problems which prevent the conclusion of an inter-American economic agreement are large and complex and affect basic economic policies of various member countries. The only possibility of working out methods for coping with these problems is through sustained and adequate study and discussion of each one individually. An important accomplishment of the Buenos Aires Conference was to delineate some of these problems and arrange for further study thereof. Further efforts, therefore, to conclude a general agreement on all aspects of economic cooperation would merely encounter and sharpen these basic policy differences without contributing any new element or method to their resolution.

The Department leaves to the discretion of the diplomatic missions their use of the foregoing material in the light of attitudes, personalities, and circumstances in the various countries. However, certain additional specific instructions will be sent to some posts. The missions are requested to report to the Department any discussions of this subject which are held with officials of the governments to which they are accredited and to cable any indications that the government may have in mind steps to get the Council of the OAS to take up immediately the question of an economic agreement pursuant to Resolution 2 of the Buenos Aires Conference.

Unless special supplementary instructions are given to the contrary, the Department does not wish the missions to take the initiative in bringing up the subject of this circular with other governments; the views set forth herein are intended for use in the

event the matter arises in conversations, or if officials request the views of the United States on the subject.

Dulles

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171. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Assistant Secretary for International Labor Affairs, Department of Labor (Werts)[1]

[Washington,] October 23, 1957.

DEAR LEO: Thank you for your observations and those of Serafino Romualdi about the Buenos Aires Economic Conference as described in your letter of October 3, 1957 and the accompanying memorandum of conversation.

We on the United States Delegation were very pleased to have Mr. Romualdi. He was cooperative and hard working, and he made, I believe, a very constructive contribution to the performance of our Delegation.

I appreciate the kind remarks that Mr. Romualdi made about the members of our Delegation. I agree with him that the performance of our technical people was highly commendable in every way. In Secretary Anderson and Deputy Under Secretary Dillon we had dedicated and outstanding leadership, and to them must go great credit for the successful and harmonious outcome of the Conference.

As you point out, the United States position papers for a Conference like that at Buenos Aires do not entirely depict the actual position, for a great deal depends on how the guidance in those papers is applied to situations arising in the course of the Conference. The position papers for the Buenos Aires Conference were prepared principally on subjects which we anticipated the Latins would bring up. Many of the customary proposals (such as an Inter-American Bank, price stabilization and parities) which the Latin Americans advance at inter-American meetings are requests which the United States cannot meet. Consequently, there was a natural tendency in the position papers to itemize our reasons for not agreeing with the Latins. But one should not, therefore, conclude

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[1] Source: Department of State, Central Files, 365/10–357. Official Use Only. Drafted by Sanders.

that the position of the United States at the Buenos Aires Conference was "negative".

On the contrary, our general position at the Conference was consistently positive: We emphasized that we, too, earnestly desire that the developing countries of the hemisphere attain the maximum possible economic progress. We stressed our willingness to give our blessing to economically sound undertakings that have a reasonable prospect of advancing the well-being of the Latin American peoples. Again and again we demonstrated our willingness to join with the Latin Americans in studies on any specific proposals that they might care to advance. I believe that the affirmative position of the United States Delegation was largely responsible for the notable harmony that prevailed at the Conference. Indicative of the accord prevailing in Buenos Aires is the fact that the United States Delegation voted against only one resolution.

It is, I suppose, possible to say that the United States at Buenos Aires was "negative" because we did not commit ourselves to such undertakings as a new financial institution in the hemisphere, or price stabilization or parity schemes. On the other hand, it would scarcely be "positive" or constructive, from the point of view of either the Latins or ourselves, if we agreed to undesirable or counterproductive projects. Whenever appropriate at Buenos Aires we expressed our views, in a reasoned and impartial manner, on the merits of the customary Latin proposals, in terms of their economic soundness and the likelihood of their making a genuine contribution to Latin America's economic progress. At inter-American economic meetings the Latin Americans do not customarily present well-thought-out and carefully-documented proposals, but rather general statements in the form of draft resolutions. In terms of making genuine progress toward solution of inter-American economic problems, more studies and careful thought are required than can be given at a relatively short conference, and the Buenos Aires Conference's determination to refer many of the basic problems to the IA–ECOSOC for study was a very constructive move. In a word, the utility of these conferences is to promote personal contact among high officials of the Governments, to identify key problems, and to determine the further work to be done. To follow up the Buenos Aires Conference I believe that we should give our best support to the IA–ECOSOC studies, and I am confident that these studies, properly carried out, will do a great deal toward providing valuable background data and useful recommendations to the Governments.

I was never aware of and do not understand Mr. Romualdi's distinction between the earlier and later stages with regard to the United States attitude and general position. I do not believe that our Delegation placed any undesirable or detrimental emphasis on the

role of private capital. At Buenos Aires we simply maintained the traditional and thoroughly justifiable view that both foreign and domestic public capital have an important role to play in Latin America's economic development, but that foreign and domestic private capital, in our opinion, should carry the main burden of financing and promoting economic development, and that the Governments should seek to create investment climates conducive to a high rate of private investment. Except for some sensitivities, such as that of the Brazilians and Argentines on petroleum development, the emphasis on the importance of private capital is certainly not offensive to the Latin Americans. In their economies private enterprise predominates, although generally speaking, the state probably has a more prominent role in their economies than is true in the United States.

Sincerely yours,

Roy R. Rubottom, Jr.[2]

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[2] Printed from a copy which bears this typed signature.

UNITED STATES POLICY REGARDING POLITICAL DEVELOPMENTS IN THE CENTRAL AMERICAN AND CARIBBEAN AREAS[1]

172. Despatch From the Ambassador in Costa Rica (Woodward) to the Department of State[2]

No. 379 *San José, January 3, 1955.*

SUBJECT

Suggestion that Advance Consideration be given to Interpretation of Article 3 of Inter-American Treaty of Reciprocal Assistance

Even though tension and alarm about a possible "invasion" subsided during the holiday season in Costa Rica, there is no indication that the Costa Rican opposition forces generally assumed to be organized in some nearby country are disbanding. Because these forces are outside of Costa Rica and do not seem to have a correlated organization within Costa Rica, this Embassy is not in as good a position to estimate the significance of the forces as are the Department and related intelligence agencies in Washington.

If the Department has not recently done so, I believe it would be useful for the Department to request the intelligence agencies of our Government to provide a current estimate of the strength of this organization and the possibility that it may actually attack the Costa Rican Government.

If the intelligence estimate indicates real possibility of an attack, I suggest for the consideration of the Department that it may be a wise precaution to attempt to obtain an advance decision in the National Security Council on the question: What would be the response of the Government of the United States if requested by the Costa Rican Government to give "immediate measures" of assistance under paragraph 2 of Article 3 of the Inter-American Treaty of Reciprocal Assistance, if the Costa Rican Government is attacked by *airplanes* which are *not* identifiable as those of another "State" so that

[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 365 ff.
[2] Source: Department of State, Central Files, 718.00/1–355. Secret.

the attack is not clearly within the meaning of paragraph 1 of Article 3?

If the Costa Rican Government is attacked, it appears probable that this is the precise question with which our Government will be faced. If this should happen, there would probably not be time to find out whether the attack was made possible by another "State" before the decision whether to give armed assistance or not would be academic. Therefore, the question of whether our Government would wish to make a broad or narrow interpretation of Article 3 might depend entirely upon judgment as to which way is to our greater national interest. The agencies of our Government represented on the National Security Council probably have all the information they require in order to form this judgment. This Embassy will endeavor to supply any additional information requested and which is obtainable within Costa Rica.

One of the factors that may increase the possibility of an attack is that the Costa Rican Government is afraid to "present the whole problem of Central American friction to the Organization of American States" as suggested in Deptel 160, December 23, 1954,[3] until such time as it is fairly certain that the potential attackers can be proved virtually flagrante delicto. The Costa Rican Government is afraid that it might be censured for the events of last April when an assassination attempt against President Somoza was prepared in Costa Rica. Such a censure might reawaken the public disapproval within Costa Rica of suspected international meddling by the Figueres Government which seriously shook public confidence in the regime last summer.

In Deptel 160, December 23, it was stated that the Costa Rican Government should not rely on the United States to solve its problems. In this connection, there is more likelihood that the Costa Rican Government would present to the OAS evidence of preparations for a possible attack before an attack is flagrante delicto, if this Embassy or the Department were to disabuse the Costa Rican Government of the impression it now harbors that the United States would come to its assistance in the event of an attack by airplanes.

There is less likelihood that the Costa Rican Government would request assistance to meet Costa Rican attackers if they do not use airplanes, even though the attackers clearly move into Costa Rica from a neighboring country. However, if the question presented in this despatch is answered, it might at the same time be useful to attempt to answer the hypothetical question: What would be the response of the United States Government if requested by the Costa Rican Government to give "immediate measures" of assistance under

[3] Not printed. (*Ibid.*, 718.00/12–2354)

paragraph 2 of Article 3 of the Inter-American Treaty of Reciprocal Assistance, if the Costa Rican Government is attacked by Costa Rican forces or mixed forces *not* clearly identifiable as including forces of another "State" but which clearly move into Costa Rica from some place or places outside of Costa Rica in order to make their attack?

Robert F. Woodward

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173. Memorandum of a Conversation, Department of State, Washington, January 7, 1955[1]

SUBJECT

Conversation with Ambassador Facio

PARTICIPANTS

Sr. Dr. Don Antonio Facio, Ambassador of Costa Rica
ARA—Mr. Holland
ARA—Ambassador Sparks
AR—Mr. Jamison
MID—Mr. Ohmans

Ambassador Facio reported that Foreign Minister Esquivel[2] continued to be worried over the possibility of an invasion of Costa Rica soon and had tentatively decided to call for a meeting of Consultation of the Foreign Ministers to consider the problem.

Mr. Holland countered with the suggestion that the Inter-American Peace Committee appeared to be the organization set up to meet such problems, could act independently, and could act immediately. Mr. Jamison pointed out that under the Rio Treaty the Council of the OAS could meet and decide to act provisionally as Organ of Consultation, convoking a meeting of Foreign Ministers for an unspecified date. Meanwhile the Council would act with all the attributes of the Foreign Ministers' meeting. He added that probably the Council, once convoked, would send an investigating committee to the area, and would then report its recommendations to the Council.

Mr. Holland stated that it seemed to him clear that since Costa Rica was concerned about the situation it should call for a meeting

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[1] Source: Department of State, Central Files, 718.00/1–755. Confidential. Drafted by Ohmans.

[2] Mario Esquivel Arguedas.

of the Council and ask for an investigation. He personally was delighted that Costa Rica was about to resort to OAS procedures and expressed the view that once the matter was under OAS consideration, nothing would happen in Costa Rica. Mr. Jamison added that much of the success of action under the Rio Treaty depended, of course, on the facts presented.

Mr. Holland told Ambassador Facio that if Costa Rica decided to call for a meeting of the Council he would make sure that Ambassador Dreier, the US representative on the Council, would be available for the meeting on Saturday, January 8.

Ambassador Facio left saying that he intended to call Foreign Minister Esquivel to urge that he be instructed to call for a meeting of the Council.

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174. Editorial Note

In despatch 391 from San José, January 10, First Secretary of the Embassy C. Allen Stewart reported that he had been invited by President Figueres to attend a session of the Costa Rican Cabinet on the evening of January 7. At the session, Foreign Minister Esquivel stated that he believed an invasion from Nicaragua was imminent, and requested the United States to send a flight of jets to Costa Rica and Navy warships to patrol off its coasts. Stewart reported that he replied "that it was highly unlikely that the United States would take such action but that if the President so desired, the request would be forwarded to the Department." (Department of State, Central Files, 718.00/1–1055) Stewart also reported in the despatch that on January 8 the Costa Rican national guard reserves were alerted but were not placed on active duty.

175. Telegram From the Ambassador in Venezuela (Warren) to the Department of State[1]

Caracas, January 9, 1955—6 a.m.

196. Saw Foreign Minister[2] this afternoon say good-bye. I had intended ask him about Central American situation but he beat me to it. He is worried about situation in Honduras which he considers grows worse daily. That in Guatemala is far from good. Stated Castillo Armas does not have the ability or the character lead Guatemala and that situation is bad and getting worse. Added he foresees Guizado[3] will be superseded in Panama because his weakness and ineptness. Referred to our Central American policy in almost same words he used speaking Assistant Secretary Holland during last visit here.[4] I denied we are "sosteniendo" any government in Central America but are supporting the regional OAS and concepts for which it stands.

This turn of conversation enabled me mention presence Managua yesterday seven Venezuelan planes and inquire whether Venezuela her friends maintaining policy of nonintervention militarily in affairs Costa Rica. He did not deny or confirm presence planes Managua. He assured me neither Nicaragua, Dominican Republic or Venezuela will send their soldiers into Costa Rica—that they will not invade that country.[5] I gave him an opportunity to confirm that Venezuelan planes did not carry arms to Nicaragua but he did not so confirm. I am inclined believe from this conversation that arms being available in Nicaragua they would be given to Costa Ricans wanting to invade their own country. He did say Venezuela would recognize within 2 hours new government following overthrow Figueres.

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[1] Source: Department of State, Central Files, 713.00/1–955. Limited Official Use; Priority. Repeated to San José and Managua.

[2] Pedro Estrada.

[3] José Ramón Guizado, Panamanian Foreign Minister and First Vice President, became President when José Antonio Rémon was assassinated on January 3. Guizado was brought to trial in connection with the assassination and was impeached on January 15. For documentation on this subject, see vol. VII, Documents 116 ff.

[4] Holland attended the Tenth Inter-American Conference at Caracas in March 1954, where he was sworn in as Assistant Secretary of State for Inter-American Affairs. For text of a press release on this subject, see Department of State *Bulletin*, March 22, 1954, p. 429.

[5] In a memorandum to Holland, January 7, Raymond C. Leddy of the Office of Middle American Affairs wrote that he had seen a report which indicated that Presidents Anastasio Somoza of Nicaragua, Marcos Pérez Jiménez of Venezuela, and Generalissimo Rafael L. Trujillo of the Dominican Republic planned to aid the attempted overthrow of President José Figueres Ferrer of Costa Rica. (Department of State, Central Files, 718.00/1–755)

Pedro Estrada admitted in separate conversation that planes sent to Managua for moral support Somoza and to alarm Figueres. Compared operation to flight US C–47s to San Jose which claimed designed support Figueres and warn Somoza. Stated planes had already returned Venezuela. Although repeating elaborate case for necessity eliminating Figueres to restore Central American tranquility, he reaffirmed President Perez determination not intervene with either men, equipment, arms or money. Stated Somoza would be particularly unreliable recipient arms and that Figueres in any case doomed soon to fall through internal revolt.[6]

Warren

[6] Telegram 169 from Managua, January 10, to Holland from Ambassador Thomas E. Whelan, reads:

"In fulfillment of previously repeated assurances that he would let me know when there is anything definite, President Somoza stated to me this morning that a revolt '100 percent Costa Rican' will take place within Costa Rica before end of week." (*Ibid.*)

176. Memorandum of a Telephone Conversation Between the Assistant Secretary for Inter-American Affairs (Holland) and the Ambassador in Costa Rica (Woodward), January 11, 1955[1]

SUBJECT

Reported Attack on Villa Quesada, Costa Rica

Mr. Holland telephoned Ambassador Woodward who said that there had been an attack on a town called Villa Quesada. The Costa Rican Government has lost contact with the town which is 69 kilometers northwest of San José. It is 21 kilometers off the Inter-American Highway just north of Milago (?). The Government has sent a platoon to the town of Zapote which is south of the town being held. They say that the airport there is not serviceable but there is a lot of flat ground around it which they could have in mind using for small planes. Mr. Woodward said the Costa Ricans are considering breaking relations with Nicaragua but have done nothing thus far. Mr. Woodward said he has not tried to influence them one way or the other. The Foreign Minister told Mr. Wood-

[1] Source: Department of State, Central Files, 718.00/1–1155. Confidential. Drafted by Mabel Karydakis, Holland's personal secretary. Initialed by Holland.

ward that there were reports of airplanes flying over northern Costa Rica but they were not identified. Mr. Woodward said everything was perfectly calm in San José.

Mr. Holland asked if they had any information on the forces that began the trouble at Villa Quesada. Mr. Woodward said they did not. Asked if the Costa Rican Government had any forces at Villa Quesada, Mr. Woodward replied they did not except for possibly one or two people to maintain communications. Mr. Holland asked if there could have been any fighting that might have occurred between two sets of forces. Mr. Woodward said no. Mr. Holland asked Mr. Woodward what comprised the attack when he said that there was an attack on Villa Quesada. Mr. Woodward said that he had no information on it—they didn't even know how they discovered that the place was out of communication.

Mr. Woodward said that the Costa Ricans had sent a platoon up to Zapote along with a scout car to find out what it was about. The Costa Ricans seem to be sufficiently convinced that the town has been taken by revolutionary forces. He said he would telephone further details. In reply to Mr. Holland's question Mr. Woodward said that they knew of no government soldiers in the town. Mr. Holland asked if he knew of any other disturbance in the country at this time, if Mr. Woodward were aware of the origin of the troops that appear to be holding Villa Quesada and if there were any indication of who may be leading them. The answer was no—that this report was very preliminary.

Mr. Woodward said the Costa Rican Government was very appreciative of the opportunity to be able to go down and get the stuff for themselves. They got in touch with the people down there and they did not know anything about the arrangements for delivery. If the arrangements were still good they would send right down for it. Mr. Woodward suggested that the people down there be instructed. Mr. Holland said he would see that they were.[2]

Concerning the trip of the Vice President, Mr. Holland asked if the matter had been discussed with the Costa Ricans since the question of the announcement has come up. Mr. Woodward said they had sent a telegram to Ambassador Facio authorizing him to say that they welcomed the trip. The Costa Ricans offered accom-

[2] In despatch 397 from San José, January 14, Woodward informed the Department of State of the delivery of anti-aircraft ammunition to Costa Rica. The despatch reads in part:

"To complete the Department's records, it is reported that the Costa Rican Government took delivery of 3000 rounds of 50-caliber anti-aircraft ammunition in the Canal Zone and brought it into the airport of San José about 6:30 a.m. on January 12, on a LACSA cargo airplane, at which time it was promptly distributed to the positions of the anti-aircraft guns. Therefore, the ammunition was in San José when the city was strafed at 8 a.m." (*Ibid.*, 718.5614/1–1455)

modations to the Nixons and Hollands at the Presidential House where there were two double bedrooms. Mr. Woodward said that they could take care of the others at the Embassy residence. Mr. Holland said we would be in touch with him later about arrangements. Mr. Holland told Mr. Woodward that we wanted announcement of the trip to come from here and that it would probably be made today.

Mr. Woodward said he would call when he had more information.[3]

[3] Following this conversation with Woodward, Holland met with Costa Rican Ambassador Antonio Facio and Costa Rican Vice Minister of Foreign Affairs Fernando Fournier, who called on the Assistant Secretary to report that Villa Quesada had been captured by forces hostile to the Figueres government. (Memorandum of conversation by Newbegin, January 11; *ibid.*, 718.00/1–1155)

177. Memorandum of a Telephone Conversation Between the Assistant Secretary for Inter-American Affairs (Holland) and the Costa Rican Ambassador (Facio), Washington, January 11, 1955[1]

SUBJECT

Costa Rican Situation

Amb. Facio informed Mr. Holland that the OAS had approved unanimously the resolution in answer to Costa Rica's petition for military assistance.[2]

Mr. Holland asked if he had any further news of the situation in Costa Rica. Amb. Facio said he did not, that the troops are steadily going that way. He said Col. Herrera reported that fighting is going on right now in the area of Villa Quesada. Mr. Holland remarked that that was significant because no work would be done on any airstrip. Amb. Facio said he did not know whether that was so.

[1] Source: Department of State, Central Files, 718.00/1–1155. Confidential. Drafted by Karydakis.

[2] On January 11 the Council of the Organization of American States, acting provisionally as an Organ of Consultation, appointed a committee to investigate the situation in Costa Rica. The following day the Council adopted a resolution requesting the American governments to provide the investigating committee with aircraft for observation flights over the affected region. See the enclosure to Document 179.

Amb. Facio said that they hope now that all the countries are free to help and preserve inter-American unity. Mr. Holland said he thought they would and action in sending a commission to investigate the situation was a big step in that direction. Amb. Facio said it was a case of not wanting it to be too little and too late. He said he just wanted the U.S. to do something, just fly over, authorize something in accordance with the treaty. He said it would gain the nation's respect for the U.S.

Mr. Holland asked if, in view of the Council's action, he still wanted to leave formally with us the request he had left. Amb. Facio said he did. Mr. Holland said in that case he would meet with the people here who have responsibility for making the decision. Amb. Facio said it would be a life-saving measure and maintains his request and that not only Costa Rica but the whole world will thank us. Mr. Holland told the Ambassador that what he was asking for was armed intervention by the U.S. and that was different from just flying over the country. Amb. Facio said that our flying over the country would stop everything immediately.

Mr. Holland asked the Ambassador if the request had been publicized. Amb. Facio said it had not, that the only persons who knew about it were Mr. Holland and himself. Mr. Holland asked if it had been given to the press in Costa Rica, and Amb. Facio replied that it had not. He said he had been requested by the Foreign Minister to submit this request.

Mr. Holland said he would press for a decision here and would get back in touch with the Ambassador. In the meantime Mr. Holland cautioned the Ambassador that he should be very reticent about it.

178. Memorandum of a Telephone Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Ambassador in Costa Rica (Woodward), January 12, 1955[1]

SUBJECT

Costa Rican-Nicaraguan Dispute

Ambassador Woodward called Mr. Holland to inform that an AT–6 plane strafed the city of San José only a half hour ago: at 8:05 a.m. Costa Rican time. The AT–6 fired indiscriminately over the city and the Embassy has an empty 45 cartridge as proof. Mario Esquivel called Ambassador Woodward to say that he heard that the Venezuelan flag appeared on the plane. However, Ambassador Woodward said it was hard to tell what flag. Also he had heard that two planes flew over La Cruz and went over Liberia dropping bombs and machine-gunning public roads trucks. No one was reported hurt. Public Roads people have a large camp at Liberia. After the plane fired the Foreign Minister called Ambassador Woodward on behalf of the President asking for armed assistance under Article III. Ambassador Woodward told him that the matter was now in the hands of the OAS body.

Mr. Holland informed Ambassador Woodward that the Costa Rican Ambassador had called this morning to renew Costa Rica's request for armed assistance, and that the matter is under study in the Department. If and when the decision is made, Mr. Holland will let Ambassador Woodward know.

Ambassador Woodward went on to say that the planes came from the northwest and were going back the same direction, exactly the direction of Nicaragua.

Mr. Holland asked if Ambassador Woodward's recommendation still was the same with respect to the Mission plane flying along the border. Ambassador Woodward replied he still felt it would be unnecessary.

The conversation continued as to the time of arrival of the Committee's plane. It would arrive in Panama at 5:30 p.m. Eastern Standard time, in San José at 6:30 p.m. EST. Mr. Holland asked if planes could land at night. Ambassador Woodward replied that that would be a good time to land.

Mr. Holland asked Ambassador Woodward if the "things" had been picked up at Panama. Ambassador Woodward said they came in 15 minutes ago.

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[1] Source: Department of State, Central Files, 718.00/1–1255. Confidential. Drafted by Holland.

Ambassador Woodward concluded by saying he had received information from Managua, . . . indicating that the planes had taken off from there.

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179. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of Defense (Wilson)[1]

Washington, January 12, 1955.

DEAR MR. SECRETARY: This afternoon the Council of the Organization of American States acting provisionally as Organ of Consultation adopted a resolution, three copies of whose English translation are attached.

In the implementation of Paragraph 3 of that resolution, the Department of State requests that the Department of Defense make available to the Investigating Committee, if possible, twelve planes of a type suitable to operate in the areas embraced by the territorial limits of the Republics of Panama, Costa Rica and Nicaragua.

It would be expected that these planes would be stationed at bases in the above-defined area suitable for their type but designated by the abovementioned committee. From the base at which they would be so stationed they would fly observation flights throughout the above-designated areas as requested by the Investigating Committee. These flights would be made solely for the purpose of obtaining through observation such data as the Investigating Committee might request. It is clearly understood that these aircraft would not afford air cover or other support to either side in the hostilities now occurring in Costa Rica; however, it would be expected that the planes would defend themselves if attacked by hostile aircraft.

Subject to the approval of the Department of Defense, the Department of State suggests that the wishes of the Investigating Committee with respect to the operations of these planes will be transmitted by Ambassador John C. Dreier, the United States Member of the Committee, to an officer designated by Defense and to be located at whatever communications center Defense may select in

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Costa Rica. Confidential.

the Canal Zone. That officer would, in turn, transmit instructions directly to the personnel in charge of the planes.

It is requested that, if possible, these planes be prepared to proceed on the morning of January 13 to the bases designated by the Investigating Committee and reported to you by the Department of State.

We are anxious to conduct this operation with maximum consideration for the convenience and needs of the Department of Defense and will be glad to discuss with you any changes which you may wish to recommend in the provisions of this letter.

Sincerely yours,

Henry F. Holland[2]

[Enclosure]

DRAFT RESOLUTION

The Council of the Organization of American States, Acting Provisionally as Organ of Consultation,

Taking into consideration the petition and the information which the Government of Costa Rica has just presented requesting military assistance, and

Considering that yesterday a Committee was appointed to conduct an on-the-spot investigation of the facts pertaining to the situation described by the Government of Costa Rica,

Resolves:

1. To request the Chairman of the Council to communicate by cable with the Investigating Committee, requesting it to submit on an urgent basis as soon as it arrives in Costa Rica, a preliminary report on the situation existing in the territory of that Republic, in order to enable the Council to reach the decision which should be adopted in accordance with the Inter-American Treaty of Reciprocal Assistance.

2. To request the American governments to take the necessary measures to prevent the use of their territories for any military action against the government of another state.

3. To request the governments that are in a position to do so that they place at the disposal of the Investigating Committee aircraft to make, in the name of the latter and under its supervision, pacific observation flights over the regions affected by the present

[2] Printed from a copy which bears this typed signature.

situation, with prior notification by the Chairman of the Council to the governments whose territories are traversed.

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180. Telegram From the Secretary of State to the Embassy in Nicaragua[1]

Washington, January 12, 1955—3:50 p.m.

165. See President immediately and, talking to him as a friend, advise him public opinion and Congress here aroused by possibility that revolutionary forces receiving air and ground facilities from sources outside Costa Rican territory. Our own treaty obligations are recalled and also danger that UN may take jurisdiction. Department values highly friendship of Nicaragua and of Somoza and does not want to be in situation where its actions might appear in opposition to Somoza or Nicaragua. Inform him Department urges Somoza take vigorous measures to prevent any possibility abuse of Nicaraguan territory be supporters of revolutionary forces in violation of provisions of Habana treaty 1928. Cable reply soonest.[2]

Dulles

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[1] Source: Department of State, Central Files, 718.00/1–1255. Secret; Priority. Drafted by Holland and Dulles.

[2] In telegram 178 from Managua, January 12, 9 p.m., Ambassador Whelan informed the Department of President Somoza's response. The telegram reads:

"President Somoza fully appreciates Department's interest and views as expressed in Department telegram 165 January 12. He asked me this evening convey his statement 'Nicaraguan territory will not be used to give assistance to rebels but they have my full sympathy'. He reaffirmed movement is 100 percent Costa Rican and an internal one." (*Ibid.*)

181. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, January 13, 1955.

SUBJECT

Latest Developments—Costa Rica-Nicaraguan Dispute

The investigating committee appointed by the Organization of American States arrived in San José, Costa Rica, this morning after overnighting at Panama. Its plan probably will be to remain in Costa Rica for three or four days in order to consider the facts, rumors and charges which have arisen as a result of the fighting which broke out in the country on Tuesday, January 11th. It will promptly submit a preliminary report to the COAS, which is acting in the matter as Provisional Organ of Consultation for the Foreign Ministers of the American Republics, a meeting of whom has been called by the original resolution of January 11th to be held at a date and place unspecified.

On January 11th at dawn a force of undetermined size attacked Villa Quesada, 14 miles off the Inter-American Highway and about 50 miles northwest of the capital city, San José. Villa Quesada is well within Costa Rica and is approximately 55 miles from the Nicaraguan border. The Chief of Staff of the Costa Rica Guardia Civil (the government's principal military force) reported yesterday, January 12th, that perhaps no more than one hundred revolutionaries are in the Villa Quesada area. Later in the afternoon, the Costa Rican forces reportedly recaptured Villa Quesada and 22 revolutionaries were captured. The remaining enemy there fled northward.

Planes variously identified as AT–6's—a training type plane—and P–51's were reported to have flown over and bombed and strafed San José, and five or six small Costa Rican towns. The attackers have taken Peñas Blancas just south of Lake Nicaragua on the Costa Rica-Nicaraguan border, and have landed near Puerto Soley very close to Nicaraguan territory. A truck used jointly by the United States and Costa Rica in the construction of the Inter-American Highway was machine-gunned. The Costa Rican government regional commander has ordered La Cruz, about 10 miles from the border, to be evacuated.

The Costa Rican communists appear not to be involved although guarantees are now suspended and communist party members and sympathizers are being rounded up.

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[1] Source: Department of State, Central Files, 718.00/1–1355. Official Use Only. Drafted by John L. Ohmans of the Office of Middle American Affairs.

The Costa Rican government has decided for the present time to take no action to break relations with Nicaragua because the Organization of American States is currently considering the case. However, the Nicaraguan Chargé[2] in San José was declared persona non grata on January 11th and given twenty-four hours to depart.

Our Ambassador in San José reports that many volunteers are offering their services to the Guardia, and that the reactions of the people to air attacks has been one of rage against the attackers and support for the Figueres government. A clandestine radio is being operated by the rebels within Costa Rica.

President Figueres accused President Somoza of aiding the revolutionaries. President Somoza responded to your personal request for nonintervention by stating that "Nicaraguan territory will not be used to give assistance to rebels but they have my full sympathy".

The Department is beginning to receive letters from American supporters of Figueres in the United States. Senator Paul Douglas has cabled you urging the Department to make every effort to support the legally elected government in Costa Rica.

In the event you are questioned about the United States position, you may wish to emphasize the United States is maintaining an impartial attitude on the problem, which is before the appropriate regional American organization. The United States supported strongly the OAS action to send an investigating committee to the area to seek the facts. The United States assisted this committee to hasten to the area by furnishing a plane for the flight to San José, and also, in accordance with the OAS resolution yesterday, planes of the Caribbean Command in Panama are being placed at the disposal of the committee "in the name of the committee, and under its supervision to make pacific observation flights over the regions affected by the present situation". Meanwhile, United States Embassy and military officials in Costa Rica and neighboring countries are keeping a vigilant eye to report all pertinent developments.

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[2] Alfonso Ortega Urbina.

182. Memorandum of Discussion at the 231st Meeting of the National Security Council, Washington, January 13, 1955[1]

Present at this meeting were the President of the United States, presiding (except for Item 8, when the Vice President presided); the Vice President of the United States; the Secretary of State (for Items 1 through 5); the Acting Secretary of Defense; Gen. Porter for the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Director, Bureau of the Budget; the Director, U.S. Information Agency (for Items 2 through 8); the Under Secretary of State (for Items 5 through 8); the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; Mr. Cutler, Special Assistant to the President; Mr. Rockefeller, Special Assistant to the President; Mr. Bowie, Department of State; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of item 1, a report by Allen Dulles on China.]

2. Significant World Developments Affecting U.S. Security

The Director of Central Intelligence remarked that the revolution in Costa Rica had begun to take on a certain *opera bouffe* quality, what with the challenge to a duel by President Somoza of Nicaragua. These characteristics should not hide the seriousness of the situation. Mr. Dulles went on to say that the present revolution was the most publicized of any Latin American revolution in history. President Somoza had advised us when it would occur, three days before it broke out.

Mr. Dulles then described the air raids mounted by the rebels, and also the military action at Villa Quesada. Rumors of landings by the rebels at ports on the Atlantic and Pacific coasts of Costa Rica had not yet been confirmed. Mr. Dulles added that it seemed hard to believe that Nicaragua and Venezuela could be lending their support to what appeared to be so small and ineffectual an operation. However, he warned, the present operation by the rebels may prove only a preliminary to larger-scale action.

Secretary Dulles commented that while it one sense the revolution in Costa Rica was decidedly minor, it was of very considerable

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason on January 14.

importance because it raised basic principles and the issue of U.S. good faith. At present this Government was taking the position that in so far as the revolution in Costa Rica was a domestic matter, it would keep its hands off. Nevertheless, this Government feels that it ought to cooperate with the Organization of American States (OAS) to try to prevent one country in Latin America from being used as a base of military operations against another. Not least important in our thinking was a desire to prevent the United Nations from meddling in the situation, as several members of the UN would be only too glad to do.

On the whole, Secretary Dulles thought that the situation in Costa Rica was moving satisfactorily, and it looked to him as though the revolution was failing. . . .

The Vice President inquired of Secretary Dulles whether the CIO was playing any part in the developments in Costa Rica. Secretary Dulles replied that the U.S. labor organizations in general were strongly backing President Figueres because of his opposition to dictatorship and because he has pursued so-called "liberal" policies—in this case retroactive income taxes and a capital levy.

Mr. Rockefeller inquired whether it would be possible to have this Administration make public its position of adherence to the principles of the OAS. Such a statement would be advantageous in counteracting current rumors to the contrary. Secretary Dulles replied that we had already tried to make such a statement, but that it had been poorly timed and had not gotten much of a play in the press. He thought he might try to make another statement on the subject at his next press conference.

[Here follow a resumption of discussion of China (for text, see volume II, page 17), and discussion of items 3–8 which covered the Far East, Berlin, and Iran.]

S. Everett Gleason

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183. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, January 15, 1955—noon.

213. Confirming telephone report January 14 President, Foreign Minister, Finance Minister, Chief Civil Aviation asked me expedite

[1] Source: Department of State, Central Files, 718.5622/1–1555. Confidential; Niact.

urgent sale 4 P–51 airplanes with ammunition and bombs to Costa Rican Government so they can destroy airplanes and equipment of attackers La Cruz area sighted by reconnaissance in event provisional organ consultation does not have better method to suggest. They naturally reluctant cause casualties in ground fighting which might be saved by demoralizing attackers with destruction their equipment.

In view finding investigation committee re outside attack and aid Costa Rican Government hopes armed assistance will be given to help avoid casualties among defenders and among attacking forces who are tools of real attackers. Presence investigating committee and aerial observation have been and are extremely useful in reducing danger from aerial attack particularly to civilian population. Reduction of supplies to attackers through fear ground air observation will further reduce casualties. Fact remains that approximately 500 attackers may cause substantial number casualties before they subdued. Obviously anything that will avoid this should be done. Moreover, substantial casualties would greatly reduce achievement IA Organization to date, would result undesirable public reaction democratic world, and could be loss opportunity establish precedent which may further strengthen IA system, pointedly discourage future adventures, and reassure small nations which have insignificant arms. In addition, if arms for emergency use can be obtained on virtual loan basis, small nations in future will be less likely find necessity purchase costly armaments which they can misuse.

Unless more effective plan under consideration, I suggest for urgent consideration Department possibility of encouraging provisional organ to request or approve sale or loan of effective weapons by member states for self defense Costa Rica in view establishment fact of outside attack and air by investigating committee.

If loan equipment impossible under US law and no other American state prepared loan equipment immediately, perhaps sale could be made with understanding intact equipment could be returned before payment required.

Have discussed this with Ambassador Dreier and he sees nothing in this which would interfere in any way with the progress of work of investigating committee and in fact believes this might help bring matter to speedy close.

Costa Rican request for 4 P–51's arose from consultation with all Costa Rican pilots who recommended this type and recommended 2 pairs. They confident 4 or 5 their number can operate them. However, if some method could be found to insure that they are

used efficiently expeditiously this might promote success of operation and minimize loss of life.[2]

Woodward

[2] A note on the source text indicates that this telegram was read by Holland on January 15 at 6:35 p.m. and that it was passed to the Office of the Secretary of Defense, the Army, the Navy, and the Air Force at 9 p.m. that evening.

184. Memorandum of a Telephone Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Ambassador to COAS (Dreier), January 15, 1955[1]

SUBJECT

Costa Rican Situation

Amb. Dreier telephoned and said that he was still in San José. About an hour ago they decided for reasons known to Mr. Holland to postpone their trip to Managua until tomorrow morning. Just after that they received intelligence that their plane in observing over La Cruz reported all of a sudden in addition to the two AT–6's and one DC–3 a P–47 appeared over that field. He was told to keep watch on the plane. It took off and flew up in the air above there, then went down to a low level and started down the road toward Liberia. Mr. Holland asked if our plane was following it. Amb. Dreier said our plane was at last report following it. It seems as though another attack had started. It is also very clear that those people are continuing to put the stuff across from sources that we do not know. It seems also that in order to avert a bad declaration the Council has to consider some very urgent action. They have not had a chance to meet in their Committee since this intelligence was received. Amb. Dreier said he talked very briefly and was going back to meet with them right away. There is some sentiment for adopting a resolution to report this to the Council as a demonstration of ineffectiveness of measures so far adopted, also that Government of Costa Rica has inadequate defense. Mr. Holland said he thought it was a good idea.

[1] Source: Department of State, Central Files, 718.00/1–1555. Confidential. Prepared by Karydakis.

Mr. Holland said that some members of the Council up here feel that the Committee has broader powers than some of the rest of us feel they do, in giving opinion about what is good, bad, lawful and unlawful. Then those people here get hard to do business with when the Committee reports along these lines. Mr. Holland gave illustration of the difference between reporting the facts and interpreting them. He said, for example, if the Committee reports that planes are not flying, the Committee doesn't have to note that what we have done so far has stopped the show. If the Committee reports the fact the Council can draw that conclusion. It would be easier if the Committee reports objectively and dispassionately the facts. If a member of the Committee feels that certain action should be taken, as Amb. Dreier has in this case, let him get on the phone and tell his own people as a representative of that country what he feels ought to be done and then we won't have difficulty in the Council. It would eliminate difficulties as to what the Council and the Committee each can and can't do. Amb. Dreier said he appreciated that though it was hard to obtain.

Amb. Dreier asked if telegram 213[2] that Amb. Woodward said he was sending Niact had been received. Amb. Dreier said he would like to support it actively in the light of the latest development. He said there was no confirmation of the landings on the Pacific Coast; on the contrary, the planes saw nothing resembling any military or amphibious landing. Mr. Holland said that the Committee ought to report that.

Amb. Dreier reported that there is another white cross on the road south of La Cruz, further south than the one previously reported. There is a column of troops moving south on the road—about 100 were seen.

Amb. Dreier said he had an appointment with the Foreign Minister at 4:30 (it was now 4:00 there). The Foreign Minister had asked him to call.

Amb. Dreier asked if we had gotten copies of telegrams containing reports of yesterday from the reconnaissance planes, which were being sent from Panama to Washington from San José through naval channels. Mr. Holland said he would try to make arrangements for getting them.

Amb. Dreier said he was going back to the city.

Mr. Holland reviewed: Plane saw a P–47 on ground with two AT–6's and DC–3; was told to watch and it took off and climbed and then got down to a very low level and started down the road to Liberia and we are following it. Mr. Holland said to stay on its tail to see where he comes from and where he goes. Re landings,

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[2] *Supra.*

unfounded rumor. Troop movement south on the road. Amb. Dreier supports recommendations in telegram 213. Matter of white cross.

Amb. Dreier said the Costa Rican Government was apparently concerned about the possibility of attacks today. Thinks they will see what happens and make plans tomorrow accordingly in connection with the Committee's going to Managua.

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185. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, January 15, 1955—11 p.m.

217. Eyes Only Holland from Dreier. Submit following for your consideration:

1. If the present attack on Costa Rica, which is clearly foreign supported and based, succeeds, it will constitute a seriously damaging, if not destructive, blow at the Rio Treaty which is, from standpoint our national security, the most important feature of Inter-American system.

2. Attack on Costa Rica may, therefore, be considered an attack on vital interests of the US, warranting, as an act of self-defense, our participation in any military effort sanctioned by the OAS under Rio Treaty procedures to protect territorial integrity and political independence of Costa Rica.

3. Present situation here makes clear to me that those responsible for aggression have nothing but contempt for OAS resolutions or observations, and will be deterred by nothing short of force. Action of P–47 and ground forces under observation by US plane today demonstrates this. We should therefore urge Council OAS adopt resolution under Rio Treaty calling on states render military assistance to Costa Rica.

4. On approval such resolution US should be prepared render immediate assistance of sort calculated end present aggression with minimum violence and bloodshed. Personal conversations with informed people here lead me to believe this could best be accomplished by ordering one of P–5Ms, currently used for observation immediately on approval resolution proceed to La Cruz airport and using rockets, destroy the three or four aircraft there while on

[1] Source: Department of State, Central Files, 718.00/1–1555. Secret; Niact.

ground. Physical and psychological impact of this action would, in my opinion, knock the bottom out of aggressive movement.

5. It should be noted that no government has yet publicly supported revolutionary movement, but the greater the success of latter, the more likely that some revolutionary government will be set up and recognized, adding diplomatic complications.

Woodward

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186. Editorial Note

In telegram 223 from San José, January 16, Woodward informed the Department of State that Costa Rica had purchased four aircraft from the United States for defensive purposes. (Department of State, Central Files, 718.5622/1–1655) In telegram 214 to San José, January 18, the Embassy was instructed to advise President Figueres that Costa Rica could choose to return the planes and pay only the service costs. (*Ibid.*, 718.5622/1–1855) According to a memorandum prepared in the office of the Special Assistant to the Secretary of State for Mutual Security Affairs, dated January 25, the Costa Rican Government chose to purchase the planes, a decision which was approved by the Department of Defense. (*Ibid.*, 718.5–MSP/1–2555)

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187. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, January 20, 1955—7 p.m.

243. From Dreier. Now appears government forces may well end fighting tomorrow or Saturday, 22nd, as rebels are already apparently crossing into Nicaragua where they will presumably be interned. Once hostilities cease, I believe OAS committee should:

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[1] Source: Department of State, Central Files, 718.00/1–2055 Official Use Only. Repeated to Managua.

1. Establish mixed border commission made up of representatives both governments and presided over by OAS observers and staff to supervise border zone.

2. Seek to work out with both governments some form political settlement which will at least provide basis for peaceful coexistence Figueres and Somoza governments.

3. Return to Washington to prepare final report for COAS.

Regarding number 1 above, we now have under direct control of committee total 29 officers including 5 US (plus several aircraft crews and communications units working out of CINCARIB), 11 Mexican (including crews of two C–47s arrived today), 11 Ecuador (crew of one plane plus group officers), 1 Brazilian, 1 Paraguayan. Additional plane expected from Uruguay and additional officer from Brazil. This number men and aircraft being kept very busy in present intensive observation activity, but should be more than enough once hostilities cease. Execution border supervision will, however, require continued cooperation Defense Department and CINCARIB in terms personnel, transportation, and communication.

Since trouble between countries is essentially political and personal, as evidenced Somoza's reaction to doubtful violation border by Costa Rican F–51 January 19, some continued political guidance and help for continuing military group appears desirable. Department should consider how this can best be provided. One possibility may well be in connection with the political arrangements referred to in number 2 above, since situation may well require from political standpoint alone continuing political representation here of OAS or other mediatory group.

Nature of possible political settlement remains unclear, in view reluctance of both Figueres and Somoza to place confidence in word of other. In Managua, January 19, Somoza indicated willingness agree to formula involving strengthening pact of amity of 1949 and might even sometime hence agree meet Figueres personally in presence another distinguished political personality from third country who would give his sanction to agreement. This so far not discussed here pending termination hostilities and creation of calmer atmosphere.

Woodward

188. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, January 24, 1955—9 p.m.

258. In view profound genuine distrust, fear two Presidents of each other, I believe essential element in solution (reference Department's niact 229, January 23)[2] should be some method in addition to bilateral agreement for assuring security against international plotting or deliberately disturbing threats or actions. While complete security cannot be given by an outside entity, large measure of reassurance would be given by some routine method of recourse to an OAS commission or to the Inter-American Peace Committee. Either an OAS commission could investigate all forms of official complaints of one government against the other, or might only act as an appeal body from a Costa Rican-Nicaraguan mixed commission which would take up complaints in first instance.

Meeting between two Presidents (would probably) be acceptable to Figueres if for practical purpose of agreeing on concrete plan of this kind. Would seem virtually essential for such meeting to be in third country, preferably Washington. Meeting probably impossible arrange by suggesting either Managua or San Jose. San Salvador might be acceptable but meeting in Washington would give both parties greater obligation observe commitments and mere acceptance invitation would assurance agreement.

If OAS able offer concrete plan reassurance, question of tenor OAS finding in current hostilities would be subordinated.

Before anything can be done, current hostilities must be terminated. Developments January 25 when buffer zone eliminated may indicate duration guerrilla warfare.

Have discussed this with Ambassador Dreier who points out that investigating committee will not decide on nature and conclusions report until after return Washington. He sees no reason why any one of a variety of possible systems reassurance cannot be decided upon and adopted before OAS findings announced once

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[1] Source: Department of State, Central Files, 718.00/1–2455. Top Secret; Priority. Repeated to Managua.

[2] In telegram 229, drafted by Holland, the Department suggested that a solution might be for the OAS to find that various governments were lax in preventing the abuse of their territory for purposes which violated inter-American treaties rather than for the OAS to fix guilt on one party to the conflict. The telegram further stated: "Suggested solution would be facilitated by public reconciliation between Figueres and Somoza. If each made aware of prejudice to him from possible OAS findings regarding accusations by other and of strong US interest in seeing reconciliation achieved, each might agree reconciliation." (*Ibid.*, 617.18/1–2355)

present conflict is terminated. Dreier also convinced Figueres would not ask to be received by Somoza in Managua or vice versa. Dreier mentioned Somoza stated terms not yet decided whether to bring accusation against Figueres before OAS and in any event Somoza indicated he does not want to mix it up with present case.

Woodward

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189. Telegram From the Secretary of State to the Embassy in Costa Rica[1]

Washington, January 26, 1955—11:34 p.m.

237. ReDeptel 229 to San Jose,[2] 187 to Managua. Department concerned lest certain elements in OAS urge pressing OAS investigation to decision fixing guilt in manner which will cause permanent split in organization which up to now has vastly enhanced it prestige and served notice on all who might henceforth contemplate intervention. This peacemaking action can raise OAS to levels effectiveness and importance never heretofore achieved.

Department feels early progress toward reconciliation will effectively deter continued investigation and factfindings which if carried far enough can destroy all possibility reconciliation. Department therefore proposes prompt overtures to be undertaken pursuant coordinated plan.

Somoza has indicated willingness effect reconciliation (Managua telegram 215,[3] repeated San Jose 51). Prospects success much enhanced if Figueres makes initial overture. Successful outcome his recent difficulties enables him make generous overture without loss prestige. Reconciliation obviously vastly preferable to enemy whose hatred aggravated by humiliation OAS action and whose armed strength greatly superior Figueres'.

Unless Embassy perceives objection recommend as first step Woodward propose Figueres plan under which by prior accord all parties (1) Figueres to publish statesmanlike offer meet Somoza and terminate all personal differences which might prejudice close ties between friendly peoples, (2) Somoza to accept in equally generous

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[1] Source: Department of State, Central Files, 718.00/1–1655. Top Secret; Limit Distribution. Drafted by Holland. Repeated to Managua.

[2] See footnote 2, *supra*.

[3] Not printed. (*Ibid.*, 717.00/1–2555)

terms, (3) to arrange that two Presidents meet at some neutral place, for example, Mexico City but not Washington, for reconciliation and agreement to establish through OAS conciliation commission to which any subsequent differences would be referred. If it would enhance acceptability proposal, meeting could perhaps coincide with established itinerary for V.P. Nixon's visit to city selected.

Emphasize suggestion is initial overture and subject later approval Somoza and government which would be host at meeting. We obviously agreeable any change enhancing probabilities success. Emphasize US motivated solely by desire preserve and enhance effectiveness OAS avoiding grave dangers inherent in its current brilliant demonstration ability maintain peace hemisphere. Emphasize reference possible alternatives to reconciliation not be interpreted US prejudging issues now under OAS investigation.

Suggest discussion above with Dreier if possible.

Dulles

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190. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, January 28, 1955—3 p.m.

266. (1) Figueres and Foreign Minister emphasized (reference Department telegram 237, January 26) wish cooperate US, deeply appreciate US help and concern, but believe offer by Figueres meet Somoza would confuse issue which has, in Latin America particularly and other parts world, taken on broad significance reflecting great credit on OAS and US. They believe personal meeting would detract from achievement by placing emphasis on personal relationship two Presidents as cause conflict. However much this was cause in Somoza's mind, Figueres points to much broader interpretation placed on issue all over world to advantage principles which are foundation US world leadership during critical period when large issues elsewhere at stake. He believes gesture personal reconciliation would appear contrived and would dilute great boost to public faith Western world that high principles international charters and treaties may be implemented. Figueres and Esquivel stated in course long discussion and have now confirmed on basis written draft following points (2) to (8):

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[1] Source: Department of State, Central Files, 718.00/1–2855. Top Secret; Niact.

(2) Costa Rican authorities in conducting own investigations and cooperating OAS investigations wish avoid embarrassment in relations with Guatemala, Venezuela, Dominican Republic and all countries other than Nicaragua. They wish avoid anything that could weaken Guatemalan Government. This approach might avoid serious danger split in OAS since evidence against Nicaragua may prove irrefutable even to closest friends.

(3) Costa Rica does not wish form sanction against Nicaragua except moral; Foreign Minister placed particular emphasis on desirability multilateral juridical conclusion not confused by preceding bilateral negotiations in order consolidate step forward in practical implementation Rio Treaty both for its future use and for example it gives to possible future implementation Atlantic Treaty. He also mentioned desirability eventual report to UN Security Council which will inspire maximum faith UN in OAS procedures.

(4) Immediately upon announcement finding provisional organ Costa Rica prepared agree any system insuring security two countries and investigation complaints within its own territory. This could be system specified in 1949 agreement with Nicaragua or under Bogota Treaty.

(5) Immediately upon announcement finding provisional organ Costa Rica prepared offer send well-qualified resident Ambassador to Managua and assure hospitable treatment to a Nicaraguan Ambassador in Costa Rica.

(6) Costa Rican Government emphatically determined prevent any plotting against Nicaragua within Costa Rica and avoid actions statements that could disturb bilateral relationship.

(7) Foreign Minister of course prepared meet with Nicaraguan Foreign Minister to agree on conciliation machinery, preferably in some third country before scheduled ODECA meeting March or prepared go Managua if this gesture should prove essential, but in any event does not think such agreement should take place until after announcement finding provisional organ.

(8) Costa Rica willing have US for confidential negotiating purposes present any of attitudes from (2) to (7) as resulting from US persuasion.

(9) Department will recognize Figueres has gained domestic political advantage from widespread foreign broader interpretation issue and he is attempting consolidate this by conciliatory speeches denying personal animosity Somoza. He obviously loathe dilute advantage by gesture calling attention[2] aspects and subject internal

[2] The handwritten notation "personal?" appears at this point in the margin of the source text.

interpretation as damaging admission which could encourage public wrath and allegations responsibility for having provoked Somoza.

(10) Department, of course, far more able than this Embassy judge soundness Figueres' observations paragraph (1) and extent to which attitudes (2) to (8) may provide methods safeguarding against dangers foreseen by Department.

Woodward

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191. Telegram From the Acting Secretary of State to the Embassy in Costa Rica[1]

Washington, January 31, 1955—9:25 p.m.

240. Dept believes Figueres underestimates degree to which personal enmity between him and Somoza is generally and publicly recognized as having contributed substantially to Costa Rica–Nicaragua conflict. Factors contributing this belief are (1) bitter personal references in public statements by both Nicaraguan and Costa Rican officials including both Presidents and Facio, (2) widely discussed presumption Figueres knowledge of and failure halt assassination attempt April 1954. In view these factors Dept strongly believes personal gesture by two Chiefs of State important to reestablishment peaceful relations.

Dept does not agree such gesture would in any way detract from important achievement OAS in supporting principles non-intervention and security of States. On contrary, as Figueres gained much from OAS action, his willingness meet with Somoza would be widely applauded as support principles inter-American friendship and solidarity.

While desirable but not essential Figueres announce publicly his willingness meet Somoza, believe he should agree now he will do so if idea proposed by OAS or friendly third government. Meeting need not anticipate final resolution by COAS which Dept hopes will be soon.

Please express Dept's gratification at Figueres' willingness take conciliatory steps described urtel 266, and his determination prevent plotting against Nicaragua. Inform him above views and Dept's hope he will agree to meeting if proposed.

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[1] Source: Department of State, Central Files, 718.00/1–3155. Secret; Limit Distribution. Drafted by Dreier and Jamison and approved by Holland.

FYI Dept expects COAS will adopt some constructive resolution on future relations Costa Rica–Nicaragua involving further development of 1949 agreement[2] and at least intimation desirability personal meeting. Latter point could be cited by United States or other friendly government in making specific proposal as mentioned above. Adolf Berle conferring with Holland on Feb 1 regarding possibility Berle's visiting Figueres immediately to urge desirability reconciliation.[3] End FYI.

Hoover

[2] Reference is to a Pact of Amity signed by Costa Rican and Nicaraguan representatives to the OAS on February 21, 1949. For text, see *Annals of the Organization of American States*, 1949, p. 204.

[3] Telegram 244 to San José, February 1, states that Adolph A. Berle, Jr., and Arthur M. Schlesinger, Jr., met with officials of the Bureau of Inter-American Affairs on February 1 to discuss the Costa Rica-Nicaraguan situation. The telegram, drafted by Dreier and approved by Holland, states, in part: "Berle suggested that visit San José to discuss this matter with Figueres in a personal capacity was best step he could take if Dept so desired. He agreed furthermore discuss with President means of eliminating, insofar as possible, by some public gesture, factor of personal antagonism between two Presidents." (Department of State, Central Files, 718.00/2–155)

192. Telegram From the Ambassador in Costa Rica (Woodward) to the Department of State[1]

San José, February 4, 1955—4 p.m.

278. From Berle. Have conferred with Woodward and have had two long conferences with the President. Situation rather different from picture of it in the Department. Though the main attack has been repelled, hostilities are actually continuing. (This morning rebels attacked Los Chiles and communications cut; size and details attack not yet known.) President expresses himself entirely willing cooperate in any program for normalizing relations which is possible, but points out any gesture of this nature suggested would be at once meaningless and politically impossible until a recognizable degree of peace and tranquil relations has been restored.

He is disposed not to press for condemnation of Nicaragua or other findings which might embitter future relations. He is making a radio statement tonight stating that there must be no bitterness

[1] Source: Department of State, Central Files, 718.00/2–455. Secret; Priority; Limited Distribution.

between Costa Ricans and Nicaraguans and that he bears no personal animosity to Somoza in this matter. The real issue is getting actual peace.

Certain concrete measures can perhaps be taken evidencing actual termination of hostilities:

1. Six Costa Rican prisoners taken by the rebels, including member of Congress, presently held in Nicaragua. These men could be immediately returned or released. Method of securing their release might be through recommendation or request provisional organ or still better by unilateral Nicaraguan act, perhaps encouraged by us.
2. Costa Rican civilians in Nicaragua might be permitted to return to Costa Rica if they so desire and restrictions lifted as to those who desire live peacefully in Nicaragua. This probably not in present terms of reference provisional organ, but action by Nicaragua might be suggested from our side.
3. Normalization of communications might be arranged which might include permission LACSA[2] planes land normally at Managua. Figueres points out he has not prevented Nicaraguan ships from docking normally at Punta Arenas.
4. Possibly (it would be a great step forward) reopening of normal commerce between Managua and San José permitting classic trade to reopen between the two countries.

These limited preliminary steps would be tangible evidence that the war is over. Remains the broader and more difficult question of actually producing peace in the border area. The situation is that guerrillas (minimum 50, maximum 250) under arms are loose in northern tier Costa Rica and it is of course believed here that they have access to supplies and temporary refuge in Nicaraguan territory. There is a state of guerrilla warfare and until ended, tranquility cannot be restored or normal relations expected. Surveillance by observers difficult at best, and no practical remedy unless Somoza really intends use his best efforts to help put an end to these activities. Figueres, realizing that mopping-up operations take time, is not asking complete tranquilization before tackling difficult task of improving relations with Somoza.

Figueres receptive to idea of appropriate statement and indication of willingness to join in ceremonial gesture in connection with concluding reciprocal arrangements based on OAS recommendations. I am working along these lines.

Department should squarely recognize that at present direct personal gesture Figueres to Somoza or vice versa during continuing state of actual hostilities would be political suicide for Figueres and would be considered at mildest meaningless and in important sectors of public opinion reprehensible in other Latin American countries.

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[2] Lineas Aereas Costarriceses (LACSA), the Costa Rican national airlines.

Linked with practical measures setting up a measure of peace it could be productive and I think possible.

Am continuing discussions and will report further.

Foregoing fully discussed with Woodward whose estimate of situation accords with mine and who agrees.

Woodward

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193. Telegram From the Secretary of State to the Embassy in Cuba[1]

Washington, February 9, 1955—7:10 p.m.

256. For Holland from Sparks. Reviewing Costa Rica–Nicaragua situation at this point suggest following:

1. Recent actions Nicaraguan Government apparently indicate that Somoza genuinely if reluctantly has concluded fighting should end. While we cannot count 100 percent on this we must act on assumption that both US and OAS action can from now on concentrate on constructive efforts restore good relations.

2. At this writing it appears likely OAS Committee report will retain constructive tone and action by Council will follow similar line.

3. OAS Committee hopes finish its report end of week, copies to be distributed confidentially in advance to members COAS with view Council meeting Feb 17 to hear report and take final action. Positive recommendations expected to be made by Committee and approved by Council would include: a) strengthening 1949 Pact of Friendship to prevent acts, including terroristic plots, which might disturb relations in future and b) negotiation special agreement called for in Art IV 1949 Pact to prevent political exiles one country from initiating revolutionary movement in other country. COAS expected offer collaboration to both governments in executing these recommendations.

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[1] Source: Department of State, Central Files, 718.00/2–955. Secret. Drafted by Dreier. Repeated to Managua and San José. Holland was in Cuba accompanying Vice President Nixon on a tour of Central America and the Caribbean. The 11 countries visited between February 6 and March 5 were Cuba, Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Puerto Rico, the Dominican Republic, and Haiti. Pertinent documentation on this subject is *ibid.*, 033.1100–NI for 1955. For a report by Nixon on this trip, see Document 195.

4. Situation not yet ripe for personal meeting Somoza and Figueres and strongly recommend Vice President Nixon not attempt arrange such meeting now. However if Council acts according foregoing schedule should be possible and desirable for Nixon during visit Managua and San José help achieve progress toward restoration good relations and eventual personal meeting Chiefs of State possibly on completion IA Highway Peña Blanca in April.

5. Suggest that Nixon in both capitals in addition expressing desire US for most rapid possible reconciliation obtain agreement both Presidents to issue separate but similar statements texts of which to be agreed upon in advance by two Presidents and Nixon, which would: a) express desire of Presidents personally and of governments terminate any past animosity and move toward restoration friendly relations; b) express desire immediately tackle problem restoration normal travel and trade; c) express approval OAS recommendations and desire take immediate steps implement them, such as appointment representatives to negotiate agreements referred to in 3 above. These statements could be issued on Feb 23 or 24 when Nixon is in Panama where he would issue third statement, text also agreed to in advance, expressing his pleasure at having seen both Presidents, his conviction both are genuinely interested restoring friendly relations within framework OAS and desire US continue supporting OAS steps toward full restoration friendly relations.

6. Value above proposal seen as permitting desirable personal intervention Vice President of US in process of reconciliation without either stepping beyond OAS framework or going too far in direction of guaranteeing settlement.

7. In meantime US would urge Somoza take additional steps of reopening navigation San Juan River and permitting LACSA resume transit stops Managua. Would also attempt arrange some counterbalancing gestures by Figueres if appropriate opportunity exists.

Embassies Managua and San José should cable comments Mexico for Holland repeating to Department and refrain any action or discussion with foreign officials until instructed further.

If above plan seems suitable Embassies would be instructed make preliminary approach to respective Presidents and given essential points to be included in statements.

Dulles

194. Memorandum of a Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and President Castillo Armas, Guatemala City, February 14, 1955[1]

SUBJECT

Political Stability in the Area

I stated that the United States was vitally interested in preserving political stability throughout Central America. I recalled to him our strong opposition to the attempt of the Arbenz government to take the problem created by the Liberation Movement to the United Nations. We had opposed submitting the matter to the United Nations because this would have permitted the Soviet veto to come into play. I pointed out that a number of allied governments were dubious about this policy of the United States with the result that it became doubly important that the OAS demonstrate its ability to cope with political problems arising in the hemisphere. All this, I said, led us to urge that he cooperate with us in maintaining peace throughout Central America.

The President replied that he was unaware of these considerations; that he wished he could have had this talk some weeks ago; that President Somoza in asking for his collaboration in the recent movement in Costa Rica had assured him that the United States would take no active steps on account of the movement and interpose no obstacles. He assured me that he would collaborate with us fully in the future.

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[1] Source: Department of State, Central Files, 611.14/2–1655. Top Secret. Drafted by Holland. Transmitted to the Department of State under cover of despatch 688 from Guatemala City, February 16. This despatch, drafted for the Ambassador by John C. Hill, Jr., Second Secretary of the Embassy, states that Holland was in Guatemala with Vice President Nixon.

195. Memorandum of Discussion at the 240th Meeting of the National Security Council, Washington, March 10, 1955[1]

Present at the 240th meeting of the Council were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; Brig. Gen. R. W. Porter, Jr., for the Director, Foreign Operations Administration; and the Director, Office of Defense Mobilization. Also present were Mr. H. Chapman Rose for the Secretary of the Treasury; the Director, Bureau of the Budget; the Chairman, Atomic Energy Commission (for Item 3); the Director, U.S. Information Agency; the Secretary of the Army, the Secretary of the Navy, and the Acting Secretary of the Air Force (for Items 5 and 6); Assistant Secretary of State Holland (for Item 5); the Chairman, Joint Chiefs of Staff; the Chief of Staff, U.S. Army, the Chief of Naval Operations, the Chief of Staff, U.S. Air Force, and the Commandant, U.S. Marine Corps (for Items 5 and 6); the Director of Central Intelligence; the Assistant to the President; Robert Cutler, Joseph M. Dodge, and Nelson A. Rockefeller, Special Assistants to the President; the Deputy Assistant to the President; Dillon Anderson, NSC Consultant; Robert R. Bowie, Department of State; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of items 1–4, "Coordination of Economic, Psychological and Political Warfare and Foreign Information Activities," "Significant World Developments Affecting U.S. Security," "Peaceful Uses of Atomic Energy," and "U.S. Objectives and Courses of Action in Korea."]

5. Report by the Vice President on Latin American Trip

The Vice President opened his remarks by commenting that while Latin American affairs might seem to the Council to be "small potatoes" as compared to the weighty subjects thus far discussed, the Council must never make the mistake of taking Latin America for granted. It was, after all, our own back yard, and it offered enormous potentials to the United States for good or for ill, depending on whether the right or the wrong people were in control of the other American republics. To illustrate his point, the Vice President reminded the members of the Council that the Communist Party of Cuba contained more members than the Communist Party USA. The

[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on March 11.

headquarters of the whole Communist movement in the Americas was located in Mexico, and the experience of Guatemala was still fresh in our memories. What had happened in Guatemala would have been much worse for the United States if it had occurred in Mexico or in Cuba. Finally, we should never forget that once one of these countries succumbs to Communist control, it would prove very difficult indeed to remove that control. It was better to anticipate than to regret, and an ounce of prevention is worth a pound of cure.

The significance of Latin America, continued the Vice President, had been well put to him by Ambassador Cabot Lodge just prior to the Vice President's departure. While he cautioned that of course this was not for publication, the Ambassador had stated that if we did not have the Latins with us in the voting processes in the UN, the United States would simply have to get out of the United Nations.

From an economic point of view, the Vice President pointed out, the Latin American republics were our best customers in the whole world. From the point of view of population their significance to us was often overlooked because we are not accustomed to thinking of them as a great military force. Nevertheless, the rate of population growth in Latin America was highly significant. It amounted in fact to approximately twice the rate of the world growth of population. Potentially this factor was a great force for good or for ill from the point of view of the United States.

Generally speaking, the Vice President said, the first concern of the United States with the Central American republics related to the maintenance of their political stability and to the continuation of peace among these nations. The outlook for the first of these objectives was on the whole pretty fair. Honduras, for example, was now appearing as a rather bright spot in the picture. The new chief of state of Honduras[2] impressed the Vice President as an exceptionally good man who was running a very good show.

While, said the Vice President, he did not have time to mention all the various countries, he did wish to say a word about Panama at this point. The assassination of President Remon was one of the most genuinely unfortunate things that could have occurred in that country, since Remon was one of the best Presidents that Panama had ever had. Fortunately, his successor, Arias, seemed also a pretty decent sort. He was strongly oriented toward the United States, and seemed to be reasonably able. Accordingly, Panama might well succeed in pulling out of its economic depression and manage to remain on a fairly stable course.

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[2] President Julio Lozano Diaz.

The Vice President said that he could hardly fail to make some mention of the affair between Nicaragua and Costa Rica, which was essentially a rather ridiculous business. What was involved in this dispute was no clash between the interests of the populations of the two countries, but essentially a personal feud between two men, neither of whom was quite big enough to run his own country and both of whom were ambitious to run all the other countries in the Caribbean area. The Vice President illustrated this generalization with anecdotes concerning Figueres and Somoza.

The Vice President then went on to describe briefly his efforts to get these two gentlemen together to patch up their quarrels. This had not worked out completely, since Figueres had said that under no circumstance and at no time would he agree to meet with Somoza and bury the hatchet. After two literally night-long sessions with Somoza and Figueres, he had finally induced them to issue public statements to the effect that neither would try to overthrow the other, and that both would work for peace in Central America.[3] The Vice President earnestly hoped that this would be realized. In any event, he was inclined to rely a little more on Somoza than on Figueres, for the good and sufficient reason that Somoza really desires to do what the United States wants him to do. Figueres, on the other hand, merely wants to do what he thinks most advantageous for himself.

Summing up the first point—namely, the political outlook for the area—the Vice President described it as relatively calm, with no external wars and no internal revolutions on the horizon.

The Vice President then said he would turn briefly to the problem of the economic stability of the area, on which, of course, its political stability was based in so large a degree. The Vice President confessed to having been somewhat confused in his ideas on this subject in advance of his actual trip, but that in the course of his journey he had succeeded in sorting out his views with much greater clarity.

In the first place, by all odds the most important consideration in developing greater economic stability in the area was to increase trade. Fortunately many of the major products of the Central American republics were items not produced by the United States—coffee, for example. Other products, unfortunately, were produced in the United States and were, accordingly, competitive. However, the necessity for providing markets in the United States for the Latin American republics was crystal clear, and the United States must try to reduce trade barriers to assure the continuation of such U.S.

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[3] An account of Nixon's talks with Figueres and Somoza is in despatch 480 from San José, March 3. (Department of State, Central Files, 033.1100–NI/3–355)

markets. If these markets were assured, economic progress would almost certainly follow. On the other hand, if the markets in the United States for Latin American products were restricted, the effects in Latin America could well prove devastating. The Vice President illustrated this general point by a specific reference to Cuban sugar, pointing out that historical statistics showed that Cuba was able to purchase American manufactured goods in direct proportion to Cuba's ability to sell sugar in the U.S. market. It was a good thing even for politicians, as all of those around this table were compelled to be, to realize that trade was a two-way street.

The second main contribution to increasing economic stability in Latin America was the provision of adequate capital. The Vice President said he wished particularly to stress the provision of private capital, and he said he was glad indeed that our current Latin American policy put such heavy emphasis on private capital and private enterprise, both with respect to capital from the United States and indigenous private capital in the other American republics. He indicated that he would subsequently offer specific recommendations on this subject in his written report on his tour.

The other major source of the necessary capital was, of course, government capital in the form of grants and gifts. On this point the Vice President was emphatic in his insistence that the policies enunciated by the representatives of the United States at the Rio Conference were the correct policies. Even Trujillo, who in many respects left much to be desired as the head of a state, had remarked to the Vice President that grants and gifts simply made beggars and loafers.

The Vice President went on to point out that our policy respecting loans to Latin American countries was to direct the Export-Import Bank, one of the two chief lending agencies, to intensify its lending program within the safeguards specified in our policy. The Export-Import Bank, however, has not done this, and it is vitally important for the Bank to follow the directives set forth in the policy and make as many sound loans as possible. We had promised precisely this at the Rio Conference, and we must deliver on our promises. This is the only way to avoid recourse to grants and gifts. The Vice President indicated that he would likewise have recommendations subsequently on this subject.

[Here follows discussion of the Mexican petroleum industry and the Inter-American Highway.]

The Vice President indicated that his report would not be complete without some reference to the situation in Guatemala. The tragic situation in which this small country found itself was a conspicuous monument to Communist failure, and it was too bad that this fact had not as yet been effectively exploited by the United

States. Guatemala had endured ten years of virtual Communist government. That government had made every sort of promise to its unfortunate subjects. It had redeemed none of them, and had proved itself completely inefficient and wholly corrupt. It had even destroyed the moral and spiritual liberties of the people of Guatemala, not to mention the committing of numerous atrocities. Relief that this government had now disappeared was widespread in Guatemala. Accordingly, the Vice President said, it seemed plain to him that the United States was now provided with an opportunity to accomplish in two years in Guatemala what the Communists had completely failed to accomplish in ten years. There was plenty of land available on which to settle a population which was vigorous and able. Indeed, 60% of the land of Guatemala was government-owned.

The President of Guatemala[4] had impressed the Vice President as a good man with good intentions. Perhaps the best evidence of this fact was that his enemies were almost invariably to be found either on the extreme right or the extreme left wing. He had said to the Vice President, in effect, "Tell me what you want me to do and I will do it." For this if for no other reason we must not allow the new government in Guatemala to fail. We had good possibilities of succeeding in Guatemala and of holding up to the world the picture of our success. The thing to do, therefore, was to intensify our loan policy in Guatemala, and to step up our exchange and technical assistance program.

[Here follows discussion of United States personnel in Central America and the Caribbean and communism in Cuba and Mexico.]

The National Security Council:

Noted and discussed an oral report by the Vice President on his recent trip to Latin America.[5]

[Here follows discussion of item 6, "Report by the Secretary of State on the Formosan Situation," printed in volume II, page 345.]

S. Everett Gleason

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[4] Carlos Castillo Armas.

[5] On March 11 Nixon reported to the Cabinet on his tour of Central America and the Caribbean. The minutes of this meeting, drafted by Minnich, are in Eisenhower Library, Whitman File, Cabinet Meetings.

196. Editorial Note

The first regular meeting of the Organization of Central American States (ODECA) was held at Antigua, Guatemala, August 18–24. In despatch 140 from Guatemala City, August 29, Second Secretary of the Embassy William B. Connett, Jr., reported that the delegates had elected Salvadoran Foreign Minister José Guillermo Trabanino Secretary General of ODECA as a compromise, after they had been unable to agree on any of several Costa Rican candidates. He further reported that the conference had also established a secretariat at San Salvador and adopted resolutions aimed at promoting a policy of Central American unity through economic integration and the repudiation of communism in the region. In concluding his despatch, Connett stated the following: "The political antagonisms between Costa Rica and Nicaragua, which had threatened to flare up at any moment and which nearly caused the Conference to come to grief over the question of the Secretary generalship, were put aside at least long enough to obtain agreement." (Department of State, Central Files, 713.00/8–2955) Additional documentation relating to preparations for the meeting and the election of the Secretary General is *ibid.*, Central File 713.00.

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197. Memorandum From Robert S. Folsom of the Office of Regional American Affairs to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, September 2, 1955.

SUBJECT

Termination of Action under Rio Treaty in Costa Rican-Nicaraguan Situation

Background

The Special Committee of the COAS/OC has recommended to the Council that action under the Rio Treaty in the Costa Rican-Nicaraguan situation be terminated. The recommendation is premised on the progress made by the two countries in reestablishing

[1] Source: Department of State, Central Files, 718.00/9–255. Confidential. Concurred in by Newbegin and Neal.

cordial relations, including the settlement of various outstanding problems, the establishment of the Commission of Investigation and Conciliation (CIC), and the prospect of their completing the bilateral agreement recommended by the COAS/OC in the near future. The Council meets on September 8 to act on the draft resolution prepared by the Special Committee which provides for: (1) cancellation of the Meeting of Consultation of Ministers of Foreign Affairs, (2) termination of the provisional action of the COAS/OC, (3) continuation of the Special Committee to assist the parties as necessary in their negotiations on the bilateral agreement, and (4) expression of satisfaction over the fact that the CIC has been established and confidence that the parties will avail themselves of its services. Amb. Dreier has requested instructions on the position which he should take on adoption of a resolution covering these points, recommending at the same time that he be authorized to approve.

Since the Special Committee made its evaluation and recommendation, we have learned that Nicaragua has managed, with the assistance of Guatemala, to get hold of Carlos Jimenez Ballard and proposes to make a dramatic revelation of his confession which allegedly implicates Figueres in the assassination of Remon and the attempted assassination of Somoza.[2] What the reaction of Costa Rica to this disclosure will be is hard to foresee, but it could conceivably reverse the progress being made by the two countries in the settlement of their differences, requiring a reassessment of the conclusions and recommendation of the Special Committee. Subject to what might occur as a result of this incident, AR and MID concur in Amb. Dreier's recommendation that the United States support termination of action under the Rio Treaty.[3] An instruction to this effect for your signature is attached.[4]

Recommendation

That you sign the instruction.

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[2] A report dated August 15 describing the arrest in Guatemala City of Carlos Jimenez Ballard was forwarded to Holland and Lyon under cover of a memorandum, August 16, from John W. Fisher of the Office of Middle American Affairs. According to the report, Jimenez was involved in the assassination of President Remón of Panama and in attempts to kill President Somoza of Nicaragua and President Lozano of Honduras. (*Ibid.*, 713.00/8–1655)

[3] Dreier submitted this recommendation to Holland in a memorandum of June 29, on which the Assistant Secretary initialed his approval. (*Ibid.*, 718.00/6–2955)

[4] Not found attached to the source text.

198. Memorandum From the Special Assistant to the Assistant Secretary of State for Inter-American Affairs (King) to the Acting Assistant Secretary of State for Inter-American Affairs (Lyon)[1]

Washington, November 25, 1955.

SUBJECT

Revolts and Invasions Rumored in Central America

In connection with your conversation Wednesday with the Costa Rican Ambassador[2] and Mr. Holland's desire that the intelligence community make aggressive efforts to confirm or deny that:

a) A revolt against Somoza is being planned for the end of the month and

b) An attack against Costa Rica is being organized with Venezuelan participation (for December 8 according to our conversation last Monday)

The following has been passed on to me:

The Minister of Public Security in Costa Rica[3] stated to a reliable source in San José on the evening of November 22 that the Costa Rican government had been informed that some 500 men were training in Venezuela for the attack on Costa Rica. They are training in Venezuelan uniforms and have been integrated into the Venezuelan army.

(*Comment:* This report, the Costa Rican Foreign Minister's assertions to Ambassador Woodward (San José's telegram 99, November 23)[4] and Ambassador Fournier's comments to you all appear to be the same story, probably based on the same report.)

A report from Managua, which will be disseminated shortly, asserts that there is to be an attack against Nicaragua from Costa Rica on December 7 or 8.

(*Comment:* The coinciding dates of the two operations may be significant. If Estrada[5] is master-minding the anti-Figueres invasion of Costa Rica as rumored, it would be characteristic of his way of thinking to touch it off with a simulated invasion of Nicaragua from

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[1] Source: Department of State, ARA Special Assistant's File: Lot 57 D 696, Central America. Secret.

[2] According to a memorandum of conversation by Memminger, November 23, Costa Rican Ambassador Fernando Fournier informed Lyon that Costa Rica was concerned over rumors of a Venezuela-based plot against President Figueres. (*Ibid.*, Central Files, 718.00/11–2355)

[3] Humberto Pacheco Coto.

[4] Not printed. (Department of State, Central Files, 718.00/11–2355)

[5] Orlando Estrada.

Costa Rica which would provide the excuse to move into Costa Rica. This may thus have nothing to do with the rumored attempt to overthrow Somoza.)

Managua's despatch 210 of November 16[6] reports, however, that Somoza believes Figueres, among others, is involved in a plot against him which will be launched from El Salvador, Honduras and Costa Rica at the end of the month or early in December.

(*Comment:* One of the alleged conspirators, Ernesto Solorzano Thompson, called on Mr. Wollam[7] a few weeks ago and left the definite impression that something was brewing. Given the rapidity with which rumors get around, it is probable that the anti-Figueres forces and the anti-Somoza plotters have wind of each others plans. The apparent coincidence in the timing of the efforts thus could stem from the plan of each to forestall the other by moving first.)

Overall Comment: It certainly appears that two plots are now under way; one against Figueres (probably with Venezuelan participation) and one against Somoza (there is little to confirm the allegation that Figueres is involved).[8] The next two or three weeks may well see a new outbreak of fighting in Nicaragua and Costa Rica with new problems confronting the OAS.

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[6] Not printed. (Department of State, Central Files, 717.00/11–1655)

[7] Park F. Wollam of the Bureau of Inter-American Affairs.

[8] Under cover of a letter of December 2, George H. Roderick, Assistant Secretary of the Army, submitted to Holland reports on revolutionary activities against the Governments of Costa Rica and Nicaragua. These reports, based on Army intelligence, state that plotting against Figueres appeared disorganized and that there was no evidence of an imminent attack on Somoza. (Department of State, Central Files, 718.00/12–255)

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199. Despatch From the Ambassador in Guatemala (Sparks) to the Department of State[1]

No. 642 *Guatemala City, April 25, 1956.*

SUBJECT

Communist Interference in Central American Affairs

During a liaison meeting the morning of April 20, Mr. Carlos Lemus G. gave the Embassy liaison officer a copy of a report on revolutionary activities in Central America. The report is submitted

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[1] Source: Department of State, Central Files, 713.00/4–2556. Secret.

as an enclosure to this despatch.[2] Mr. Lemus said that President Carlos Castillo Armas planned to make available a similar copy of the report to Ambassador Sparks on a trip to Esquintla the same day, which he did.

Mr. Lemus stated that he would be interested in receiving the Embassy liaison officer's comments on the report. After reading it, the Embassy liaison officer said that he found the report very interesting but that he was not inclined to comment further as he wished to discuss it with Ambassador Sparks. Mr. Lemus agreed and suggested they meet again on April 23.

Mr. Lemus then exhibited the rifle, ammunition, and grenade referred to in paragraph 4 of the enclosed report. He said that this equipment, which he believed to have been shipped to Costa Rica from East Germany, had been purchased by a trusted Costa Rican informant . . . in Costa Rica recently. The Embassy liaison officer asked Mr. Lemus whether he deduced from the origin of the arms that the Communists were behind the arms shipments. Mr. Lemus replied that he believed this to be true, indicating that perhaps even ex-President Jacobo Arbenz Guzman, whom he believed to be in Czechoslovakia, was implicated in the arms traffic. The Embassy liaison officer expressed great interest in this premise and suggested that he would be interested in receiving proof of such activity. Mr. Lemus replied that he would make available any evidence if it came into his possession. The April 20 meeting terminated on that note.

Before the April 23 meeting with Mr. Lemus, the Embassy liaison officer briefed Ambassador Sparks on the April 20 meeting and instituted a . . . check. The check . . . revealed that the information contained in the report had been previously reported in Guatemala or other Central American countries . . . . The only new aspect was the armament in Mr. Lemus' possession. Since investigation on several occasions in Mexico by the Army Attaché and in Costa Rica . . . have failed to confirm the allegations contained in paragraph three of the enclosure, it was decided that the Embassy liaison officer should advise Dr. Lemus on 23 April that the information was interesting but inconclusive and suggest that he attempt to obtain more facts.

The Embassy liaison officer met Mr. Lemus on April 23 and opened the discussion of the report. As indicated above, he advised Mr. Lemus that the information was sketchy and that he, the liaison officer, was inclined to question the validity of paragraph three, concerning phantom ships making arms deliveries along the Atlantic Coast. To this Mr. Lemus replied that he was satisfied that arms were being transported in small fishing boats. He said the movement

[2] Not printed.

of this type craft was difficult to monitor, and that fishing vessels were able to move freely. As an example he stated the arms were landed clandestinely along the Pacific Coast of Guatemala after 7 o'clock at night when the beaches were deserted, and that although his agents heard rumors of the landings, they were unable to discover the caches. The liaison officer agreed that this was possible but stated that beach landings were rather difficult except under ideal conditions.

Mr. Lemus then went on to say that his government is deeply concerned over the political situation in Central America. He said in his opinion, the Communists, in conjunction with prominent Caribbean figures such as Rómulo Betancourt, Carlos Prio Socorras, Jose Figueres, and Dr. Juan Jose Arevalo were in an excellent position to intervene successfully in Honduras, Salvador, Nicaragua, and Panama within the current year. He indicated that he is particularly concerned about Honduras, however, since the electoral situation there is particularly delicate. It was Mr. Lemus' opinion that the Communists have the best chance of staging a Central American comeback in Honduras. When the liaison officer queried him as to the source of his information Mr. Lemus replied that he received reports from the countries of Central America which substantiated his statements. The Embassy liaison officer has actually seen a number of these reports during the liaison meetings. Usually the reports are vague, and sometimes from questionable sources. The buildup in the volume of information is such, however, that Mr. Lemus' statements cannot be entirely discounted, particularly vis-à-vis Honduras.

. . . reports evidence the fact that the Guatemalan exiles continue to plot. They do not indicate, however, that the Arbencistas have any real capability to affect the stability of the Castillo regime. Insofar as the other countries of Central America are concerned, the Embassy is not sufficiently informed to express an authoritative opinion. Without question, though, Mr. Lemus' point is well taken that the situation is favorable to dissident elements in those countries facing elections this year.

For the Ambassador:
Jacob D. Esterline
Second Secretary of Embassy

200. Editorial Note

The notes of the Secretary of State's staff meeting held on October 11 records the following statement by Acting Assistant Secretary of State Roy R. Rubottom, Jr. Regarding reports of increased tension in Central America, "Mr. Rubottom said his staff has followed closely the increased tension in Central America following the shooting of the late President Somoza. He said he had planned to try and employ the ODECA Committee, an agency of OAS, to lessen the growing tension; but was pleased to report that the Salvadoran Secretary General of ODECA had gone to Managua yesterday and conferred at length with representatives of the Nicaraguan Government. He said he believed this effort by the ODECA Committee would serve to curb the rivalries and produce a more peaceful atmosphere". (Department of State, Secretary's Staff Meetings: Lot 63 D 75) President Somoza was shot on September 21 and died on September 29. Luis Somoza became President for the remainder of his father's term, until May 1957. For documentation on this subject, see volume VII, Documents 102 ff.

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201. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, December 12, 1956.

SUBJECT

Situation Report for ARA

Since I will be away from the Department for the rest of this week, I want to report to you, as of 5:45 p.m. today, the status of the following matters which have been of current interest and covered by me at your staff meetings for the past few days:

[Here follows a report on Haiti.]

Nicaragua–Costa Rica. Guillermo Sevilla-Sacasa[2] replied to John Dreier's telegram today expressing Nicaragua's willingness to establish the joint boundary commission with Costa Rica called for under their agreement of January 1956 but heretofore not implemented by

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[1] Source: Department of State, Central Files, 713.00/12–1256. Secret.

[2] Nicaraguan Ambassador to the United States.

either party. This is an encouraging development since the Costa Ricans are believed also ready to appoint their member to the commission, and should contribute to the relief of tensions between them.

[Here follow reports on Bolivia and Brazil.]

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202. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in El Salvador (Mann)[1]

Washington, August 2, 1957.

DEAR TOM: Thank you for your letters of March 22 and July 2, 1957,[2] giving us additional comments on the possibility and desirability of creating a Central American University. Your idea of a Central American rather than a hemisphere approach to the problem of establishing an inter-American institution of higher learning is challenging. Such an approach should certainly decrease and even obviate some of the difficulties inherent in the development of a great University of the Americas which, as envisaged in S.A. Resolution 174, 84th Congress, would serve as a center of higher education for all the American Republics.

While agreeing with you that there is urgent need for strengthening the universities in many of the Republics, it is the general opinion of those who have had the opportunity to discuss the various proposals on the establishment of an international university in America that if such an international institution, either regional or hemispheric, is to have a chance of success, it will have to come into being as a result of a very real need recognized by the States that are concerned in its creation. Otherwise, they will not give it the moral and financial support needed for its creation and continuing existence. Leadership for such an institution must come primarily from nationals of the countries concerned and, in the case of an international institution, which would be venturing into new fields of higher education endeavor, truly inspired leadership would be needed.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, El Salvador.

[2] Neither printed. (*Ibid.*)

The recommendations of the ODECA on the creation of a Central American University open the way to joint action by the Central American States in the development of such a project and their further consideration of this proposal might well be encouraged. In view of their sensitivity to anything that might be considered as an effort to Anglicize Latin American culture which you note in your letter of July 2, however, it would seem to be most inadvisable for the United States to show even the slightest trace of paternalism in its approach to this very important matter in taking too active a part in support of the proposal.

It will interest you to know that Senator Mansfield,[3] in his speech on Foreign Affairs in the Senate on July 13, 1957, stated that he would like to revive the proposal that he had made last year calling for an exploration of the possibilities of establishing a University of the Americas, perhaps in the commonwealth of Puerto Rico. Therefore, further action on this matter in the Congress may be expected.

The Department will bring to the attention of Senator Mansfield, Congressman Boggs,[4] and Congressman Fascell,[5] and others interested in the creation of an inter-American University, the proposal for the possible establishment of a Central American University, making clear some of the problems inherent in its development, especially in reference to the problem of obtaining moral and financial support from the Central American States.

In view of your concern with the development of an inter-American University you will be interested, I am sure, in another project which, if it is supported by the American States, would also result in increased opportunities for higher education for a number of the youth of the American Republics. The Committee of Presidential Representatives meeting in Washington on May 8, 1957, made a series of recommendations for strengthening the program of the OAS in economic, financial, social and technical fields. One of these recommendations in the field of education involves the initiation of a regular program of 500 scholarships independent and apart from those at present offered by the Governments and the OAS, which would be a multilateral project carried on by the OAS. This recommendation, if it is supported by the Member States of the OAS, would make possible a broad interchange of students among the American Republics in a multilateral program which would make possible the use of the best higher education facilities in the Hemisphere. This program should not only provide good educational

[3] Mike Mansfield (D.–Mont.).
[4] Hale Boggs (D.–LA.).
[5] Dante B. Fascell (D.–Fla.).

opportunities for some 500 youth each year, but should give the institutions receiving these young people an opportunity to strengthen their own educational facilities in line with both national and regional needs.

I appreciate very much your interest in the idea of an inter-American University and will keep you informed of any further action taken by the Department and the Congress.

With kind regards.

Sincerely,

R.R. Rubottom, Jr.[6]

[6] Printed from a copy which bears this typed signature.

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203. National Intelligence Estimate[1]

NIE 80–57 *Washington, April 23, 1957.*

POLITICAL STABILITY IN CENTRAL AMERICA AND THE CARIBBEAN THROUGH 1958[2]

The Problem

To estimate probable developments in the Central American and Caribbean republics[3] through 1958 with particular reference to the prospects for political stability throughout the area.

[1] Source: Department of State, INR–NIE Files. Secret. National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[2] According to a note on the cover sheet accompanying this estimate, "The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff." The Intelligence Advisory Committee concurred in this estimate on April 23.

[3] Cuba, Haiti, the Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and Panama. The foreign possessions in the Caribbean are not included. [Footnote in the source text.]

Conclusions

1. For the period of this estimate, the military, together with the landed gentry and wealthy merchants, are likely to dominate the internal politics of all the Central American and Caribbean republics except Costa Rica. Reformist and popular elements, whose influence has been checked for the past few years, are unlikely to upset the status quo. However, palace revolutions may occur. (*Para. 47*)

2. The Communists, whose influence has been declining over the past few years, do not now constitute a serious threat to any regime in the area. Communist capabilities are unlikely to increase except in Cuba, and possibly in El Salvador. However, non-Communist subversion involving exiled groups will continue to disturb the stability of the area. (*Paras. 36–37, 48, 52*)

3. Inasmuch as we do not believe that the Cuban government can fully restore public order or check the emergence of new civilian opposition elements, there is only an even chance that the Batista regime will survive the period of this estimate. A military-dominated junta would be the most probable successor. Haiti is in serious political turmoil and faces near economic collapse. So long as dissension exists among the military, it is unlikely that a clear-cut solution will emerge. It is probable that Haiti will seek emergency financial assistance from the United States. Nothing is likely to endanger the government of the Dominican Republic so long as Generalissimo Trujillo remains active. (*Para. 49*)

4. Castillo Armas will probably continue his somewhat right-of-center course in Guatemala. No opposition group is likely to pose a serious threat to the stability of his regime. The Somozas and related families will probably continue to dominate Nicaragua. The De la Guardia government in Panama and the Lemus regime in El Salvador, though less stable than those in Nicaragua and Guatemala, will probably survive the period of this estimate. In Honduras, the present military regime, with possible shake-ups in the junta, is likely to continue in power through 1958. (*Para. 50*)

5. In Costa Rica, because of a serious split in the administration party, Figueres will probably be unable to determine the outcome of the 1958 elections. It is likely that free elections will be held in Costa Rica, approximately on schedule. We believe that the orientation of the newly elected Costa Rican government will be somewhat more conservative than the present one. (*Para. 51*)

6. Over the longer term, the pressures for reform and change will continue to build up throughout the area. The present military leadership can provide no more than a braking action against pressures for change. The growing size and importance of the educated professional and middle classes will increasingly threaten the posi-

tion of the traditional ruling groups. The eventual emergence of more broadly-based, reformist, nationalist regimes, similar to that in Costa Rica, is probable, although for the foreseeable future the great mass of the population will continue to have an inferior economic, social, and political status. This mass will be readily exploited by demagogues. (*Para. 53*)

7. For the period of this estimate, we believe that the relations of the various states in the area with the US are likely to continue favorable. The Panamanian government will probably continue to press its demands for full implementation by the US of the 1955 Canal Treaty and its related agreements. Stimulated by the Suez Canal situation, Panama will also probably continue to agitate for further economic benefits from Canal operations with the ultimate goal of operating the Canal Company jointly with the US. However, we do not believe that it will force any of these demands to the point of creating serious friction between the US and Panama. (*Para. 54*)

Discussion

The Political Situation

Basic Conditions and Trends

8. The Caribbean and Central American republics are generally the least advanced in the Western Hemisphere. Economic underdevelopment, social immobility, and political immaturity are their prevailing characteristics. Although foreign-financed (mainly US) sugar and banana producers and domestic coffee growers are engaged in export agriculture, most of the area's 22,500,000 inhabitants are engaged in primitive, subsistence-type agriculture. Economic development is retarded by lack of capital and of technical skill, by the inadequacy of transportation and power facilities and other basic services.[4]

9. In this economic environment, the vast majority of the population is poverty stricken, undernourished, illiterate, and socially and politically inert. The generally dominant social element is an elite consisting of upper echelon military officers, the landed gentry, and the wealthy merchants. This dominance is most often reflected politically in a highly personalized dictatorship, responsive to the will of the elite and characterized by a limited sense of public responsibility.

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[4] See Appendix II for Economic Conditions and Trends. [Footnote in the source text.]

10. Even though most of the republics have a nominally broad franchise, in none of them, save Costa Rica, has there consistently been the articulate popular participation required to give reality to democratic processes. Consequently politics have revolved around persons or cliques rather than public issues. The continued shifting of military support has been the decisive political factor, and rule by military "strong men" has been normal. In an environment of such political immaturity, the constant struggle for power has created a pattern of intrigue and conspiracy, often with international ramifications and implications, and of corresponding suspicion and repression. The transfer of real political power from one group to another is usually accomplished by revolution rather than by election, although such revolutions are usually a matter of military *pronunciamiento* with a minimum of public disturbance and bloodshed.

11. In recent decades, however, a small but growing urban middle class has been posing a serious challenge to the old order. Business and professional men, students, intellectuals, and younger military officers have been demanding social reform, an ever increasing share of the wealth, and more effective political democracy. This agitation against the traditional order of society has had strong nationalistic overtones, generally directed against foreign enterprises. The reformist groups have been encouraged and manipulated by extremists. The Communists, superior as organizers and propagandizers, have often been able to strongly influence, and at times to assume leadership in, the reformist groups.

12. Pressure for and resistance to change have not been uniform throughout the area. In Guatemala, the traditional order was severely shaken by the revolution of 1944. In Cuba, Costa Rica, and Panama, pressures for change have been effective to a considerable degree. Such pressures are more moderate in El Salvador, and only recently have affected Haiti, Honduras, and Nicaragua. They have been effectively contained by a strongly entrenched authoritarian regime in the Dominican Republic.

13. Since the fall of Arbenz in Guatemala in 1954, there appears to have been a partial reaction against the reformers throughout the area, and the more demagogic and extreme elements are now either quiescent or under control everywhere. At the same time, the present leadership has found it at least convenient to maintain an association with the concepts of economic and social progress and to make moderate concessions to reformist and nationalist sentiment.

14. Though social ferment has over the past few years become a lesser factor in the instability in the area, the political tensions inherent when a dictatorial regime operates within a constitutional framework continue to work against stability. Although the "strong men" have generally not flinched from the adoption of any methods

necessary to assure their continuance in power, they nevertheless remain sensitive to charges of illegal action and strive to give a constitutional aura to their rule. The patent frauds usually committed by the incumbents in the election process provide the frustrated opposition with new grounds for attacking the administration, thus exacerbating the instability and tension of the area.

Non-Communist Subversion

15. The conspiratorial and revolutionary politics of the Caribbean normally extend across national boundaries. For over a century it has been customary for leading adherents of a regime overthrown by revolution to take refuge in a sympathetic neighboring country, there to plot counterrevolution with the sufferance, and perhaps the active support, of the host government. Consequently the security of a given regime depends in part on the existence of friendly governments in neighboring countries. In these circumstances, one country may foment revolution abroad in order to forestall revolution at home. Thus a successful revolution in one country is likely to lead to a revolutionary attempt in others.

16. The exiles are primarily interested in returning to power and attempt to work closely with the domestic underground opposition. There are in some instances significant ideological differences between the exiled or suppressed reformist forces and the entrenched traditionalist forces which seek to minimize changes. These differences are often described as a struggle between the "democracies" and the "dictatorships." However, in many cases these terms are not precisely descriptive and the struggle is merely one between the "ins" and the "outs," with only a measure of ideological content.

17. In general, exile activity has tended to decrease in the area over the past few years. Although there are active exile groups in most of the republics, no country now serves as a key center of conspiracy. Rightist exile activities from Venezuela and Nicaragua have declined as a result of the backfiring of the 1955 attempt to overthrow Figueres in Costa Rica and the death of Anastasio Somoza. The fall of the Arbenz regime and the consolidation of Castillo Armas' position have eliminated Guatemala as an important base, both for the Communists and the "democratic" exiles. The Caribbean Legion, formerly an active filibustering organization made up of exiles from various countries in the area, is defunct.

18. Mexico and the United States have become more important centers of plotting against the entrenched regimes of the area. The principal targets of these exile groups are Cuba, Guatemala, and the Dominican Republic, but only in the case of Cuba do present exile activities constitute a serious threat to the incumbent regimes.

The Political Situation in the Island Republics

19. *Cuba* is ruled by a military "strong man," Fulgencio Batista, who returned to power in the 1952 army coup. Until late 1955, though the Batista regime was generally unpopular, the army, the key to the stability of the regime, remained loyal, and the opposition was disorganized and ineffectual. During the past 18 months, however, Batista's position has been considerably weakened by the growing political and military unrest. In late 1955, intensified student disturbances and demonstrations began to take place, and in April 1956, Batista, confronted with a conspiracy within the military, was forced to carry out an army purge. In the aftermath of this purge, there occurred an organized civilian assault on an army barracks, sporadic antiregime terrorist acts throughout the country, and widespread rumors of revolt and invasion.

20. Fidel Castro, youthful leader of a self-styled reformist, anti-Batista revolutionary group, has become the regime's chief antagonist. From exile in Mexico he apparently directed domestic underground opposition to Batista, and in September 1956, he signed an agreement with an anti-Batista student organization to collaborate in overthrowing the present regime. On 2 December 1956, Castro, with approximately 80 men and a small vessel, landed in eastern Cuba, and today he maintains a guerilla force of 50 to 300 men, which the Cuban government has thus far been unable to dislodge from the eastern mountains. . . . Castro is at least in part financed from the outside, ...

21. Ex-President Prio has a considerable potential for increased subversive operations. We believe that he has large sums of money and matériel at his disposal and has recruited Cuban exiles for revolutionary purposes. On 13 March 1957, Cuban insurrectionists, apparently including followers of Prio and possibly Castro, staged a spectacular but unsuccessful assault on the Presidential palace in an attempt to kill Batista.

22. The failure of the regime to crush Castro's guerilla operations, the intensification of antigovernment acts and ruthless counterterrorist activities, the repeated suspensions of constitutional guarantees, and finally, the shifting of the revolutionary activity to the capital itself, have placed the regime in real jeopardy. Some responsible elements, including some wealthy businessmen and professionals, are apparently sympathetic to the insurrectionists. Furthermore, there are reports of disaffection within the armed forces, particularly among the lower echelon personnel of the army. However, at the moment Batista appears still to have the loyalty of the leaders of both the military and the police. He is also favored by

Cuba's current economic prosperity and by an absence of alternate political leadership with wide popular support.

23. *Haiti* is in serious political turmoil aggravated by a severely depressed economic situation. Although the overthrow of President Magloire at the end of his term (December 1956) was in accordance with customary Haitian political processes, the recurrent general strikes whereby competing candidates for the succession have prevented the orderly selection of a successor have resulted in an unusually prolonged political crisis. This situation is ominously reminiscent of the period 1908–1915, which produced a state of virtual anarchy.

24. Haitian presidents normally attempt to perpetuate themselves in power beyond their term, but are usually compelled to vacate by military juntas responsive to the demands of the predominantly mulatto elite, acting to forestall dangerous agitation of the overwhelming black majority. In such cases, an orderly succession has been fairly promptly arranged by tacit agreement among the military and the elite, with a decent regard for constitutional appearances. President Magloire came to power in this manner in 1950, and was displaced in the same way. The normal process for selecting his successor has broken down, however, because of the determination of rival candidates to block the selection of each successive leading contender. At the moment, the military hold a tenuous balance of power position. They have already proved susceptible to the pressure of the general strike, and they may not feel capable of imposing a political solution. Moreover, there are indications of increasing dissension among the military themselves.

25. Haiti's political instability is aggravated by severely depressed economic conditions. The deeply eroded and relatively unproductive land is overpopulated and food is in chronic short supply. Exploitable forest, subsoil, and water resources are scant; industrial development is negligible. Per capital real income is the lowest among the Caribbean republics. This basic situation is further prejudiced by chronic maladministration. In addition, since 1954 Haiti has suffered from a disastrous hurricane and prolonged drought: agricultural production has fallen and earnings from the primary export crops—coffee, sugar, and sisal—have been reduced. Earnings from tourism have declined as a result of the disturbed political situation; domestic industry and commercial activity have stagnated. Government expenditures, bloated by overambitious development plans and widespread graft, have been maintained at a high level by foreign and domestic borrowing in recent years, and the National Bank is virtually insolvent.

26. *The Dominican Republic* is ruled by the most durable "strong man" of the area, Generalissimo Dr. Rafael Leonidas Trujillo. He

secured command of the Dominican armed forces shortly after the withdrawal of the US military occupation in 1924 and has been in dictatorial control of the country ever since. The Dominican Republic is a one-party state and is administered, in substantial effect, as the private estate of the Trujillo family. It has long been a target for ineffectual subversive activities and has itself fomented subversive activities in the area, most recently against Cuba. Presidential elections are scheduled for May 1957, with Hector Trujillo, younger brother of the Generalissimo and the incumbent president, the only candidate.

The Situation in Central America

27. In *Guatemala,* Castillo Armas, who came to power through the overthrow of the Arbenz regime in June 1954, has pledged adherence to the liberal principles of the 1944 revolution. However, he has been subjected to strong conservative forces. Beset by pressures from the right and left, he has attempted to pursue a middle-of-the-road policy. A single government party dominates the country's political organization and elections have been controlled. Although the right of free expression has generally been observed, the government has not hesitated to use restrictive measures, including martial law, during periods of uneasiness. Urban labor has been permitted to reorganize in selected enterprises, but its leadership has been carefully screened and a central labor confederation has been discouraged. Castillo has corrected the worst abuses of the Arbenz land reform policy, and has continued a moderate land distribution program of his own. Highway construction and port development with US funds have been pushed vigorously. Guatemalan differences with the United Fruit Company have been at least temporarily resolved. The program to extend educational facilities has been hampered by lack of funds.

28. In early 1956, conservative landholding, business, and military elements became increasingly dissatisfied with Castillo's tolerance of the non-Communist leftist opposition. Reacting to conservative pressure, the government, in June 1956, acted harshly to suppress student demonstrations spearheaded by a leftist minority, and subsequently it temporarily curtailed sharply the freedom of the press. By the year's end, however, Castillo had begun a campaign to correct the impression that his regime had shifted its orientation from a middle course. He recently reiterated a public warning to landholders against exploiting their labor and introduced minimum wage legislation designed to protect the rural worker.

29. The armed forces, the key to stability, support the regime. Existing and potential domestic opposition to the Castillo regime lies with labor, the peasantry, student groups, and certain ambitious

politicians and military leaders who seek more rapid advancement than afforded by Castillo. None of these elements has so far displayed a capacity for offering a serious challenge to the security of the Castillo government. Rumors of conspiracy by exiles collaborating with opposition elements inside the country to overthrow the Castillo government have persisted since 1954. A potentially dangerous concentration of exiles is located in Mexico, but the Mexican government is making some effort to limit their activities. Various non-Communist and Communist exile groups are also active in Costa Rica and El Salvador, but these are small in number and torn by factional strife.

30. In *Nicaragua,* long-time dictator Anastasio Somoza was assassinated in September 1956 by a young oppositionist. There followed a rash of arrests, trials, and convictions inside Nicaragua and charges of an international conspiracy involving Nicaraguan exiles. Meanwhile Luis Somoza succeeded his father as President, and on 3 February 1957, was elected President for a six-year term. Although Luis Somoza, unlike his father, is not the typical "strong man," the top civilian and military posts remain in the firm grip of the Somoza family and its allies.

31. There are a number of potential, though not immediate, sources of instability in Nicaragua. Luis Somoza apparently desires to be a progressive President, but the influential families who gained their position under his father are committed to the status quo. Also, Luis must reckon with his highly unpredictable and emotional brother, Anastasio ("Tachito") Somoza, Jr., who continues as head of the National Guard and the Air Force. There is active political opposition inside Nicaragua, but it is not currently capable of successfully challenging the entrenched Somoza forces. Anti-Somoza exile groups are active in Costa Rica, El Salvador, and Mexico, but these forces are too weak to constitute a serious threat to the Nicaraguan government.

32. *Honduras* is now ruled by a three-man military junta, which took over the government after the overthrow of the Lozano regime in October 1956. The junta was accepted by most political factions as the best available solution to Honduras' political problems for the short run. It is a caretaker government committed to holding free elections and to the restoration of constitutional government. Despite its initial successes, the junta has been subjected to a variety of increasing political pressures. The Liberals, who have the best organized political machine and who apparently possess the largest political following, desire a speedy return to constitutional rule, while some other political factions and military elements have shown little interest in moving decisively in this direction. Also there is factionalism between the younger and older army officers,

and a lack of unity within the junta. An apparent reflection of the government's domestic political insecurity is its current stirring up of an old boundary dispute with Nicaragua.

33. The *Panama* government is headed by Ernesto de la Guardia, who was elected in May 1956 as a compromise candidate of the National Patriotic Coalition, the loosely knit political group organized by the late President Remon. He appears acceptable to the National Guard, Panama's only armed force. De la Guardia, a relatively honest and well-intentioned man, is caught up in the rivalries of internal party factions and the special political problem of the still unsolved 1955 murder of former President Remon. The administration has announced a program of national reform and development but has made little progress to date, due to financial difficulties and the resistance of entrenched interests.

34. *Costa Rica,* in contrast to its neighbors, has a long tradition of relatively orderly democratic government. The government is headed by Jose Figueres, a somewhat erratic reformist leader, whose popularity has diminished to some extent since its peak in early 1955. The President faces uncompromising opposition from the wealthy landholders and business interests to whom his fiscal and paternalistic economic policies are anathema. The imminence of presidential and legislative elections scheduled for February 1958 is chief unsettling factor in the present situation. Figueres has become less outspoken against those Caribbean and Central American leaders whom he regards as dictators, particularly since the death of Somoza of Nicaragua.

35. In *El Salvador,* Lt. Colonel Jose Maria Lemus, who was handpicked by his predecessor, President Osorio, assumed power in September 1956. He inherited what is virtually a one-party government which depends upon military support for survival. Lemus is trying to increase his support within the army. At the same time, he is attempting to cater to popular elements by creating a more democratic political climate and promoting moderate social reform and economic development. These latter policies are opposed by the landed and business interests, who fear his social and economic reform plans, and by the army, which resists the diversion of budget funds from military use to public projects.

Communist Subversion

36. Communist influence and prestige in Central America and the Caribbean area has been generally declining over the past few years, particularly as a result of the Guatemalan anti-Communist revolution of June 1954. It is estimated that there are now around 14,000 Communist Party members in the area, about 90 percent of

whom are in Cuba.[5] In no other country are there estimated to be more than a few hundred. In most of the countries there is an indeterminate number of Communist sympathizers whose size fluctuates with the size and effectiveness of the Communist Parties. There has been a decline in Communist strength in Guatemala from the well-documented estimate of 2,000 Communists and 2,000 Communist sympathizers of 1954 to some 300 Communists and 1,500 sympathizers. Exceptions to the otherwise general decline in Communist numerical strength are Honduras and El Salvador, where moderate increases in Party membership appear to have occurred.

37. The Communists do not now constitute a serious threat to the stability of any regime in the area. Communist Parties are illegal in every country, and all governments have taken a public position against Communism. However, only Guatemala has demonstrated real concern over the Communist menace; the other governments have tended to view their non-Communist opponents as more immediate threats and therefore more dangerous. As a result, the Communists have been able to carry on their activities through a variety of front organizations. By this means they exert an influence out of proportion to their limited numerical strength. This is the chief potential danger from Communism in the area.

38. Except in Guatemala, where there has been a sharp across-the-board decline, there have been no radical alterations in the pattern of Communist operations over the past three years. Urban and plantation labor are the key sectors to which the Communists are directing their attention. Their success in this respect has been most marked in Cuba, Costa Rica, Honduras, and most recently in El Salvador. They also wield influence in the educational systems, perhaps most significantly in Cuba and Panama. Control of student, youth, and women's groups is a prime target, most importantly in Cuba. Some Communist sentiment persists among students in Guatemala. Communist infiltration of government is not quantitatively significant anywhere, though Communists and pro-Communist intellectuals apparently continue to hold official or advisory positions in Cuba and Panama. The Communists have not penetrated the armed forces to any significant extent.

39. Communist strategy over the long-term is to attempt to create a united opposition front and within that framework to discredit the group in power. They identify themselves where possible with progressive and nationalistic movements and attempt to convert non-Communist demand for social, economic, and political

[5] The present total is some 21,000 below the estimate made in 1954. Most of this decline is attributable to more reliable information on Communist strength in Cuba. [Footnote in the source text.]

reform to Communist purposes. They attempt to discredit anti-Communist governments and to transform popular dissatisfactions into antagonism toward the US. Except in the case of Guatemala, the Communists in the area have generally eschewed deep involvement in the subversive activities of non-Communist exiles.

40. The Communists of the area maintain their international contacts through the Communist-controlled Latin American Confederation of Labor (CTAL) and World Federation of Trade Unions (WFTU), and other front organizations. Over the past several years, there has been a notable increase in travel by local Communists and selected sympathizers to Soviet Bloc countries and to Communist-sponsored international conferences. Affiliations of local Communist Parties with front organizations are most fully developed in Costa Rica and Cuba.

International Relations

41. *Intraregional.* In the relations of the states of the area to each other, there are two major factors, the most important of which is the disruptive force of various personal rivalries, national antagonisms, and area controversies stirred up for domestic reasons. For example, there was a long-standing feud between the Figueres government in Costa Rica and Somoza in Nicaragua. There has been personal fueding between dictators Batista of Cuba and Trujillo of the Dominican Republic, and more recently, the border conflict between Nicaragua and Honduras has been revived.

42. The other major factor is the Organization of Central American States (ODECA), created in 1951 in response to the historical ideal of Central American union, and which has some potential as a stabilizing force in the area. It has made limited progress toward the establishment of closer economic ties and toward greater technical and administrative cooperation among the Central American republics. ODECA has also assisted in the promotion of peace in the area. It helped patch up differences between Nicaragua and Costa Rica and between El Salvador and Nicaragua following Somoza's assassination. ODECA, which regards British Honduras (Belize) as essentially a Central American problem, has recently gone on record officially in support of Guatemala's long-standing claims to the area. ODECA's capabilities are, however, limited. For example, it has been unable to resolve the boundary dispute between Honduras and Nicaragua.

43. *With the US.* All the governments of the area recognize that, in view of the strategic importance of the Caribbean to the United States and of the overwhelming preponderance of US economic and military power in the area, they must accommodate their policies to US security interests, if only as a matter of practical expediency.

However, popular suspicions of US motives make it necessary for these governments to avoid the appearance of subservience to the US, and somewhat limit their ability to cooperate with the US. Moreover, in return for their cooperation, the governments of the area expect from the United States, protection, toleration of their peculiar domestic political processes, and help in solving their economic problems. They strongly support the Organization of American States and the United Nations, in part as a means of obtaining a voice in international affairs out of proportion to their meager strength, but also as a means of invoking general Latin American support on issues of mutual concern.

44. All the Caribbean and Central American republics have ratified the Rio Treaty and all are disposed to cooperate with the US in Hemisphere defense. The US maintains a naval base in Cuba and a guided missile tracking station in the Dominican Republic.[6] In the OAS and UN, all consistently support the United States on basic issues with the Soviet Bloc. On certain other issues involving "colonialism" and underdeveloped areas, their record has been variable. In general they are strongly opposed to colonialism and feel that the United States has discriminated against them in matters of financial assistance and trade.

45. US relations with Panama constitute a special problem because of US control of the Canal Zone in the heart of the republic and because of the importance to the Panamanian economy of dollar earnings from the Zone (over 20 percent of national income). In these special circumstances, Panamanian governments have felt it necessary to strike a nice balance between popular sensitivity regarding national sovereignty and a real necessity to maintain cooperative relations with the United States. A 1955 Treaty revision helped alleviate Panamanian resentment over wage discrimination against Panamanians employed by the US in the Zone, over the commercial competition from the Zone, and over allegedly insufficient payments from the United States for use of the Canal Zone. However, delays in US implementation of certain provisions of the 1955 Treaty are causing dissatisfaction. Moreover, Panamanian public and official pressure for increased advantages and additional adjustments in the Treaty continues, and the Panamanians are attempting to exploit the Suez crisis to their own advantage.

46. *With the Soviet Bloc.* Since the fall of the Arbenz regime in Guatemala in 1954, none of the republics has had diplomatic relations with any Bloc country except Poland, whose chargé d'affaires in Mexico is accredited to several of these countries. None has trade

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[6] See map on US military facilities in the area. [Footnote in the source text. The map is not reproduced.]

agreements with the Bloc. However, Soviet Bloc purchases of Cuban sugar stocks since December 1954 (about 1,050,000 tons valued at about $100,000,000) have been welcomed by the Cubans, and other countries of the area have demonstrated some interest in finding new markets for their export crops in the Bloc.

Probable Developments

47. For the period of this estimate, the military, together with the landed gentry and wealthy merchants, are likely to dominate the internal politics of all the countries of the area except Costa Rica. Reformist and popular elements, their influence checked for the past few years, are unlikely to be able to upset the status quo. However, palace revolutions may occur. Moreover, scheduled or promised elections in Cuba, Haiti, Costa Rica, and Honduras, may adversely affect stability in these countries during the electoral period.

48. During the period of this estimate, intergovernmental rivalries will probably be reduced. Relations between Costa Rica and Nicaragua are likely to improve, and both Trujillo of the Dominican Republic and Perez Jimenez of Venezuela, after their recent failures, are likely to adopt a more cautious attitude towards involvement in the affairs of their neighbors. The boundary dispute between Nicaragua and Honduras will probably continue unresolved, but it is not likely to lead to extensive armed conflict between the disputants. However, non-Communist subversion involving exiled groups will continue to disturb the stability of the area, particularly in Cuba. Mexico and the US will continue to be the principal havens for exiles.

49. With respect to the island republics, it is unlikely that the Cuban government can fully restore public order or check the emergence of new civilian opposition elements. There is only an even chance that the Batista regime will survive the period of this estimate. If he falls, a military-dominated junta will probably take over. In Haiti an orderly election is unlikely. It is too early to predict the outcome of the existing political impasse. So long as dissension exists among the military, it is unlikely that a clear-cut solution will emerge since any group or candidate will require substantial military support to remain in office. Any Haitian government will be faced with the threatened economic collapse, and accordingly, will probably seek emergency financial assistance from the United States. Nothing is likely to endanger the Dominican regime so long as Generalissimo Trujillo remains active.

50. In Central America, Castillo Armas will probably continue his somewhat right-of-center course in Guatemala. Although there will almost certainly be occasional rumblings from the press, students, union leaders, and exile groups, none of them, singly or

collectively, are likely to be able to pose a serious threat to the stability of the Castillo regime. The latter will continue to agitate for annexation of British Honduras, but will almost certainly not take precipitate action. The Somozas and related families will probably continue their domination of Nicaragua. The De la Guardia government in Panama and the Lemus regime in El Salvador, though less stable than those in Nicaragua and Guatemala, will probably survive the period of this estimate. In Honduras, it is likely that the present regime, with possible shake-ups in the junta, will continue in power through 1958.

51. In Costa Rica, because of a serious split in the administration party, Figueres will probably be unable to determine the outcome of the 1958 elections. It is likely that free elections will be held in Costa Rica, approximately on schedule. We believe that the orientation of the newly elected Costa Rican government will be somewhat more conservative than the present one.

52. Communist capabilities are unlikely to increase except in Cuba, and possibly in El Salvador. In Cuba, the sizable and well organized Communist Party may be able to take advantage of weakened governmental discipline and public disorder. Though contacts between the local Communists and international Communism may increase as a result of intensified Soviet-sponsored efforts to extend influence in the area, formal ties and commercial interchange with the Soviet Bloc are likely to remain limited.

53. Over the longer term, the pressures for reform and change will continue to build up throughout the area. The present military leadership can provide no more than a braking action against pressures for change. The growing size and importance of the educated professional and middle classes will increasingly threaten the position of the traditional ruling groups. The eventual emergence of more broadly-based, reformist, nationalist regimes, similar to that in Costa Rica, is probable, although for the foreseeable future the great mass of the population will continue to have an inferior economic, social, and political status. This mass will be the readily exploited by demagogues.

54. For the period of this estimate, we believe that the relations of the various states in the area with the US are likely to continue favorable. The Panamanian government will probably continue to press its demands for full implementation by the US of the 1955 Canal Treaty and its related agreements.[7] Stimulated by the Suez

[7] The US Congress has not yet passed legislation to implement certain provisions of the Treaty and its related agreements, including the establishment of a single basic wage scale and US construction of a bridge over the Canal at Balboa. [Footnote in the source text.]

Canal situation, Panama will also probably continue to agitate for further economic benefits from Canal operations with the ultimate goal of operating the Canal Company jointly with the US. In order to gain increased leverage for its position and to embarrass the US, it will probably continue to air its grievances and might even threaten to contest before the UN the issue of sovereignty in the Zone. However, we do not believe that it will force any of these demands to the point of creating serious friction between the US and Panama.

Appendix I

ARMED FORCES CAPABILITIES

1. The armed forces of the Caribbean and Central American republics are generally designed to defend their respective governments against internal subversion, filibustering expeditions from abroad, and armed intervention by antagonistic regimes in the Caribbean and Central America. Defense against any more formidable aggression is beyond their capabilities, and in Caribbean opinion, sure to be provided by the US in its own interest. At present, the armed forces of Cuba,[8] the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua are capable of maintaining internal security and defending against raids from neighbors. Panama's National Guard, its only military force, is capable of maintaining internal order but unable to defend its government against expeditions from abroad. The armed forces of Costa Rica and Haiti are capable only of suppressing minor civil disturbances.

2. The ground forces of the republics (see Table 1) consist of army and police units, which are generally dispersed in small groups, except for concentrations at the capital cities. They vary in strength from the 21,000-man, well organized army of Cuba to the 1,900-man Civil Guard of Costa Rica, a provincial type, poorly trained, police organization. Their combat effectiveness is generally low by US standards and, with the exception of the Dominican Republic, seriously limited by their arms and equipment, a heterogeneous collection of European and US types, much of which is obsolete and poorly maintained. However, with the aid of US guidance and matériel, the capabilities of some of the area's ground forces, particularly those of Cuba, Guatemala, Honduras, and Nicaragua, are likely to increase.

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[8] The Cuban army's capability for maintaining internal security is currently being challenged by a small group of rebels operating in the eastern mountains of Cuba. [Footnote in the source text.]

3. Air forces (see Table 2) are maintained by all the Caribbean republics except Panama, but only the Dominican Republic and Cuba have air forces with appreciable strength in personnel and aircraft, augmented by a well developed airfield system. The others are minor auxiliary units with few qualified pilots and generally obsolete equipment. However, the successes achieved by the small air forces of Guatemala and Costa Rica in 1954 and 1955 have intensified Caribbean interest in air capabilities as evidenced by Honduras' recent purchase of World War II US airplanes and El Salvador's apparent interest in acquiring additional aircraft.

4. The only navies of any significance in the area are those of Cuba and the Dominican Republic (see Table 3). Both are capable of coastal patrol, of defense against raids, and to a small degree, of engaging in anti-submarine warfare. However, their over-all combat capabilities are slight.

5. In general, the Caribbean and Central American republics are receptive to closer military cooperation with the US. The US maintains army missions in all the republics except the Dominican Republic and Haiti, air force missions in all but Costa Rica, the Dominican Republic, and Panama, and navy missions in Cuba, the Dominican Republic, and Haiti. In addition, all the republics except Costa Rica, El Salvador, and Panama have entered into bilateral military assistance agreements with the US under which they have agreed to contribute various units to Hemisphere defense.

Table 1—Armed Forces Personnel Strengths

	Ground[9]	Air[10]		Naval
Costa Rica	1,900	72	(11)[11]	none
Cuba	28,650	1,084	(85)	6,172[13]
Dominican Republic	12,000	1,714[12]	(98)	3,486[14]
El Salvador	6,300	136	(23)	162
Guatemala	9,000	244	(45)	none
Haiti	4,900	131	(10)	296
Honduras	4,500	136	(23)	negligible
Nicaragua	4,000	242	(44)	negligible
Panama	2,500	none		none

[9] Includes army ground forces, national guard, and police units. [Footnote in the source text.]

[10] Numbers of rated pilots in parentheses. [Footnote in the source text.]

[11] National airlines pilots who fly in case of emergency. [Footnote in the source text.]

[12] Includes about 800 security troops which are part of air unit, and 120 cadets. [Footnote in the source text.]

[13] Cuba maintains a naval air arm with an additional estimated 268 personnel, 23 of whom are pilots. [Footnote in the source text.]

[14] Includes 756 marines. [Footnote in the source text.]

Table 2—Military Aircraft

	Total	Fighters	Light Bombers	Transports	Trainers Miscellaneous
Costa Rica	4	3	0	0	1
Cuba	73	25	20	11	17
Dominican Republic	159	88	0	7	64
El Salvador	14	0	1	2	11
Guatemala	43	14	0	8	21
Haiti	17	4	0	6	7
Honduras	40	17	0	7	16
Nicaragua	64	28	2	6	28
Panama	0				

Table 3—Combatant Naval Vessels

	Destroyers (DD)	Escort Vessels (DE)	Patrol Escorts (PF)	Escorts (PCE)	Sub-marine Chasers (PC)	Small Sub. Chasers (SC)
Cuba		3		2		
Dominican Republic	2		7		3	2
Haiti						4

Appendix II

ECONOMIC CONDITIONS AND TRENDS

1. The nine Caribbean republics vary widely in rate of economic growth and capacity for development. The area's generally low economic capability is indicated by the low level of per capita national income, which ranges from $340 in Cuba to $80 in Haiti, and is generally about $200.[15] With the exception of Panama which depends substantially on commercial activities linked to the Panama Canal, their economies are based primarily upon agriculture, which provides nearly all their food requirements and the bulk of their exports. Except in the production of export crops, agricultural methods are technologically backward. The industrial plant, geared to limited national markets, is in general small and poorly equipped, and industrial output is confined largely to processed foodstuffs and nondurable consumers' goods.

2. Aspirations for economic improvement have stimulated, particularly during the past few years, numerous governmental development programs in the field of transportation, power generation, and agriculture. The implementation of such programs has been furthered by US monetary aid and technical assistance, and by IBRD,

[15] See Table 4. [Footnote in the source text.]

IMF, and UN assistance. As a result, the production of foodstuffs and raw materials for local consumption has on the whole kept pace with population growth, and most countries have also made limited progress in expanding the industrial sectors of their economies through increased production of consumers' goods and construction materials.

Private Investment

3. US investments account for the only significant foreign private capital in the area, but they consist chiefly of plantations and public utilities (transportation, telecommunications, and electric power.)[16] Lack of confidence in political stability and the narrow limitations of the local market have been factors in retarding the inflow of private capital in the area. Since the Korean war, US oil firms, in response to official encouragement by the governments of the area, have stepped up exploration in the area. If sufficient resources are discovered, large capital investments will almost certainly follow.

4. The largest single US interest in the area is the United Fruit Company, parent of some 60 subsidiaries and operating in all the republics of the area except Haiti, and in certain other Latin American countries. It has large investments in banana, sugar, and abaca plantations, in railways, ports and ships, and in extensive telecommunications facilities. In Guatemala, Honduras, Costa Rica, and Panama, the Company is the largest private employer and largest single source of tax revenue. The American and Foreign Power Company is the second largest foreign enterprise in the area. It is particularly important in Cuba, Panama, Guatemala, and Costa Rica.

5. The dissatisfaction of the area with its "colonial" economic status finds expression in antagonism toward the large US corporations, particularly toward those which enjoy special privileges granted in former times. While the Communists exploit this dissatisfaction for their own purposes, the sentiment is nevertheless real and general. Various pressures have been brought to compel such interests to relinquish their special privileges and to pay higher wages and taxes. Following the expropriation of part of its assets in Guatemala under the Arbenz regime, the United Fruit Company recognized its extreme vulnerability to demands of political reform groups and renegotiated its concessions throughout the area. By this action, the Company has tempered local criticism and at the same time made itself even more important to the local economy. The American and Foreign Power Company has been relatively successful

[16] See Table 5. [Footnote in the source text.]

in adjusting to nationalist antagonism in Cuba and Panama, but it is still faced with strong anti-Company public and official pressure in Costa Rica and Guatemala. US-owned companies operating in the Dominican Republic have also experienced government pressures but this is a matter of private extortion by Generalissimo Trujillo rather than of public policy. The Dominican Republic is the only country in the area in which US investments have decreased substantially in recent years.

Trade

6. Inasmuch as the area's requirements for capital goods and a very large portion of consumers' goods must be procured from abroad, foreign trade is vital to the national economies, and they are particularly vulnerable to fluctuations in the terms of trade. Close ties of local currencies to the US dollar and geographic proximity afford the countries easy access to US markets for both imports and exports. The United States is the principal trader with each of the nine countries, the principal exports of which are coffee, sugar, and bananas.[17]

7. After an interval of postwar readjustment, the trading position of the Caribbean countries has improved. A sustained rise in prices for export commodities has improved their terms of trade and stimulated economic growth. Coffee prices have retained the gains which have occurred since World War II, with Central American premium grades attracting strong demand from Europe as well as the United States. Sugar prices have fluctuated at improved levels in the postwar period, and are currently abnormally high. Banana prices have remained relatively stable near their postwar highs. Cotton prices, which only affect Nicaragua significantly, have recently declined.

Table 4—National Income Per Capita, in US dollars (estimated 1957)

Country	$/Capita
Costa Rica	$200
Cuba	340
Dominican Republic	150
El Salvador	200
Guatemala	160
Haiti	80
Honduras	180
Nicaragua	160
Panama	250

[17] See Table 6. [Footnote in the source text.]

Table 5—US Direct Investments in Caribbean Area, 1955 (Million Dollars)

Country	Total	Agriculture	Public Utilities
Costa Rica	61	44	11
Cuba	723	276	305
Dominican Republic	134	102	5
El Salvador	24	n a	17
Guatemala	103	20	73
Haiti	18	9	3
Honduras	101	80	12
Nicaragua	19	n a	n a
Panama	479	52	154
Total	1,662	583	580

Table 6—Selected Commodities as Percent of Total Exports
1955 Figures

Country	Sugar	Coffee	Bananas	Cotton
Costa Rica	—	47	39	—
Cuba	80	—	—	—
Dominican Republic	44	30	—	—
El Salvador	—	86	—	8
Guatemala	—	73	23	—
Haiti	5	67	—	—
Honduras	—	15	52	—
Nicaragua	—	41	—	42
Panama	—	—	76	—

MEXICO

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND MEXICO[1]

204. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of the Treasury (Humphrey)[2]

Washington, January 17, 1955.

DEAR MR. SECRETARY: With respect to the proposal of Mexican Secretary of Finance Carrillo Flores for a ten year loan to the Mexican Treasury in the sum of $75 million, I enclose a copy of a letter from Ambassador Francis White, together with a copy of its enclosure, a Memorandum of Conversation with Senor Carrillo Flores.[3]

The Department fully supports Ambassador White's view that Mexico should take action to increase the confidence of investors and others in the economy of the country. In the field of financial stabilization Mexico seems to be making progress. The lack of confidence in the peso, which persists, while partially a hangover from the devaluation of last Spring rather than a reasoned appraisal of present conditions, is due also to failure of the Mexican Government to take positive action to effect a return of confidence. Confidence in the peso will return only with time and as the Mexican Government carefully avoids disturbing actions, and at the same time takes advantage of every opportunity to reassure the public and to encourage foreign investment.

Ambassador White suggests that it would be well to have considered what, if any, help the United States can give and that he be informed so he could pass it on informally and confidentially to Carrillo Flores. It is our feeling that Mexico's financial position is improving and we question whether at present there is need for additional financial assistance in the stabilization field. Carrillo Flo-

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1324 ff.

[2] Source: Department of State, Central Files, 812.10/1–1755. Confidential. Drafted by Young.

[3] Both dated December 16, 1954, neither printed.

res should be told that we wish to be helpful and after Mexico has taken the internal steps to restore confidence we will review the situation again with him. In the meantime he can be told that we look forward to discussing matters with Mexico's representatives when they arrive later this month.

I feel that Carrillo Flores is a friend of the United States who has fought successfully to maintain the convertibility of the peso and who merits our support.

I shall be pleased to receive and transmit to the Ambassador any comments you may wish to have sent to him.[4]

Sincerely yours,

Henry F. Holland[5]

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[4] In a memorandum to the President dated February 25, Secretary Humphrey wrote: "Part of the lack of confidence in the peso following the sudden and drastic devaluation in April 1954 involves political factors, including the composition of the Mexican Cabinet and the restoration of the confidence of Mexican and U.S. businessmen in the dedication of the Mexican Government to the principles of private enterprise rather than increased government intervention." (Eisenhower Library, Whitman File, Administration Series, Humphrey, George M. 1955)

[5] Printed from a copy which bears this typed signature.

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205. Memorandum From the Officer in Charge of Mexican Affairs (Hughes) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, March 25, 1955.

SUBJECT

Certain Mexican Economic Policies

Reference is made to your request of March 18 for a review of Mexican economic activities indicating a resurgence of isolationism and nationalism. It is understood that you propose to consider the desirability of pointing out to Mexican officials that the continuation of this development may affect possible future United States assistance to Mexico.

Inordinate nationalism appears to be innate in the Mexican national character and to be the basic cause of many of Mexico's

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[1] Source: Department of State, Central Files, 812.00/3–2555. Confidential. Drafted by Elizabeth McGrory of the Office of Middle American Affairs (MID). Transmitted to Holland under cover of a memorandum dated March 25.

economic problems. It is evident in Mexico's attitude toward foreign investments and in its trade policies. This memorandum will be concerned primarily with these two aspects of the problem.

Investment Policy

The official position of the present Mexican Government is that Mexico must encourage foreign capital to invest in the country because such investments are necessary to its economic development. Large segments of business and Government welcome any and all investors who add to domestic production, increase employment, and contribute to the Government's income through taxation. A number of incentives providing a favorable climate for foreign investors appear to outweigh the disadvantages of investment in Mexico, and new enterprises financed from abroad are constantly being established there.

Another large group, representing the more nationalistic elements of business and Government, insist that new business financed with foreign funds should not be permitted to compete with any established enterprises. This group would restrict foreign capital to the less lucrative fields of investment which are not attractive to domestic capital. A leading Government proponent of this policy is the present Minister of Economy,[2] although recently he has appeared to be less active in promoting it.

For the past fifteen or more years, the latter group has been spearheaded by the Cámara Nacional de la Industria de Transformación, an organization of approximately 8000 members, largely small Mexican industrialists. The Chamber has campaigned against foreign branch plants and undertakings where foreign capital is the dominating factor. With increasing competition, the organization is becoming more articulate in its demands upon the Government to restrict foreign manufacturing interests, and its newly elected President is reported to have made numerous strong statements in favor of the strict regulation of foreign investment into areas where Mexican enterprise is not already active. He has used a new term in this connection, namely, that foreign capital investment should be restricted to a "complementary" role.

That term was also used recently by the Minister of Finance who has been considered, of all members of the present Mexican Administration, to have understood the benefits which a favorable climate for foreign investment can bring to Mexico. Included in a statement to the press about the Administration's policy on industrialization, credits and investment, was the remark that foreign direct investment should be accepted when it "complements" and does not

[2] Gilberto Loyo.

eliminate national investment, and when it helps to create new employment opportunities and augments national income. Whether this represents a fundamental change in the Minister's attitude, or a verbal concession to the pressure of the Chamber of Manufacturing Industries, is not known.

The formation of a new organization The Asociacion de Empresarios Mexicanos "to protect Mexican enterprises against the encroachment of foreign capital" has recently been reported. Two persons known for their strong nationalistic tendencies, O. L. Longoria, Jr., and Antonio Ruiz Galindo, are co-presidents. The objective of the organization is to induce the Government to prohibit the investment of foreign capital whenever it means displacement of domestic capital and to permit the investment of foreign capital only when it creates new channels of business by establishing new industries or by granting credits.

You will recall that you have sent a letter to Ambassador White suggesting that he consider discussing with President Ruiz Cortines and possibly with the Minister of Finance the possible effect upon future American investments in Mexico of nationalistic movements of that kind.

Trade Policy

Turning to the subject of nationalism in Mexico's trade policies, there is a problem of serious concern to American exporters who, apparently in increasing numbers, turn to the Departments of State and Commerce for relief. In view of the nature of the problem, little comfort can be given them that its solution is in prospect.

Mexico's economy has been that of a supplier of raw materials and an importer of finished goods. It is the present policy of the Government to change that situation as rapidly as possible to provide the country with a more balanced economy based upon a completely developed industry which will convert Mexico's raw materials into processed and manufactured goods to meet domestic demands. In carrying out its objective, the Government looks also to the conservation of its foreign exchange balances and to the diversification of foreign trade to lessen dependence upon the United States as a source of imports.

To implement its policy, Mexico relies primarily upon import tariffs and direct import controls. Mexico of course has full and sovereign right to control imports in the manner it considers to be in the national interest. Moreover, its need to curb imports for balance of payments reasons must be recognized. Nevertheless, import tariffs and quantitative restrictions are used to protect domestic industries and to promote industrial development, they are manipulated at the discretion of authorities as a means of curtailing or prohibiting the

importation of selected products, and they are not always applied as a considered policy of industrialization, but at times have been motivated by political pressure or nationalistic urging. It is this aspect of the problem which is of particular concern to us because it limits the operation of free competitive enterprise in Mexico and reduces or destroys important Mexican markets for United States products.

Mexico has granted some degree of protection through tariffs or quantitative restrictions, to almost every manufacturing industry in Mexico, regardless of whether the local product is adequate in quantity, quality and price, to meet domestic demand. A few days ago, this office received information (not yet confirmed by a report from the Embassy) that Diesel Nacional, S. A., a Fiat subsidiary in Mexico, would begin producing 10 to 60 horsepower gasoline and diesel motors in about two months, and that it had asked the Mexican Ministry of Economy to prohibit the importation of machinery utilizing motors of those sizes after June 1, 1955. According to the information received, this would affect United States manufacturers of agricultural, industrial and mining machinery who reportedly ship around $100 million of this type of machinery to Mexico annually. Another report concerned the prohibition of imports of paper cartons for the packaging of wet packed frozen shrimp although, according to the information received, the Mexican paper industry is not yet able to produce the proper packaging for one of Mexico's most important export products. Electric concrete vibrators, equipment essential in construction work and not manufactured in Mexico, have reportedly been subjected to import licensing. An American manufacturer of wood cased pencils, whose Mexican market was nurtured carefully for a number of years until it had reached substantial proportions, has been forced to concede its loss because his Mexican distributors have been unable to obtain import licenses. Import permits for linoleum and felt base rugs have been refused, although these goods are not made in Mexico, on the ground they are not essential to the economic welfare of Mexico.

The response which the Departments of State and Commerce can make to protest against such treatment by American businessmen is very limited. We can only refer to Mexico's policy of protecting domestic industry and to the necessity for restricting, for balance of payments reasons, imports of items which may be considered by Mexico to be in the non-essential or luxury category under present circumstances because they are, or can be, manufactured in Mexico. We refer to the absence of a contractual basis for protesting these restrictions through diplomatic channels and, by way of a constructive proposal, suggest that Mexican importers and users of the product in question take up the problem directly with Mexican

authorities. This type of response, which represents the facts of the situation, is of course most unsatisfactory to the American businessmen involved.

As you know, we had a trade agreement with Mexico from January 30, 1943 to December 31, 1950, when it was terminated by mutual consent.[3] Mexico was restive under the agreement and in the later years of its existence sought ways of circumventing it. For many months, strong efforts were made by us to retain the agreement, even to the point of our agreeing to renegotiate it. However, Mexico was willing to negotiate only upon its own terms—meaning that Mexico expected full-scale concessions by the United States and in return would consider no concessions of value to us. In fairness to our commitments to other nations in the GATT, in which Mexico has consistently refused to consider membership, we had to work out the termination arrangement. There have been indications since then that Mexico would entertain a proposal to consider trade-agreement negotiations with the United States, but only to the extent that would clearly be in its own interests, and not within the framework of the GATT.

Up to the present time, the Department has agreed with the Embassy, and the Department of Commerce has concurred, that any representations to Mexican authorities, even of an informal nature, looking to the amelioration of these import restrictions would be useless, or even counter-productive. The Mexican response to such representations would be, as it always has been, that balance of payments and domestic industry must be protected. Moreover, Mexicans know they are in no danger of losing the privileges of most-favored-nation treatment for their products in the United States market as long as present United States commercial policy prevails. Therefore, they would be more than ever firm in refusing to listen to United States requests for reconsideration of restrictive trade actions.

Contrasting our reticence in approaching the Mexican Government on actions it takes affecting American trade is the procedure adopted by Mexicans, supported by diplomatic representations, whenever Mexican interests seem likely to be affected by projected United States trade controls. There are several outstanding cases in point. A year ago, when consideration was being given to increasing the United States import duty on lead and zinc, the Mexicans made strong diplomatic representations and there was a veritable campaign in the newspapers of Mexico concerning the effect upon United States-Mexican relations of such action. Strong representations also were made with respect to certain provisions of the Agricultural Act

[3] For documentation on the termination of the trade agreement, see *Foreign Relations*, 1950, vol. II, pp. 939 ff.

of 1954 when it appeared they might result in the imposition of restrictions upon imports into the United States of tomatoes produced in Mexico. Currently, the Tariff Commission's escape clause hearings on plywood have been the subject of a memorandum from the Ambassador and visits to the Department of a delegation representing the Mexican plywood industry.

In a somewhat different category is the organized Mexican campaign for an increased sugar quota. This has involved not only diplomatic representations and governmental and industry contacts with every United States Government official having any possible connection with sugar legislation, but United States manufacturers supplying machinery and equipment to the Mexican sugar industry have been asked to communicate with their congressional representatives to urge consideration of an enlarged Mexican quota. Several months ago, the Mexican Government insistently sought to purchase a half million tons of corn for reserve stocks. This was the subject of numerous diplomatic communications as well as conferences with State, FOA and Agriculture, and every effort was made to meet the Mexican request within the limitations imposed by pertinent legislation. However, the Mexicans refused to consider buying the corn at the market price, in accordance with United States requirements. The problem ceased to exist when a bumper corn crop, for which there were inadequate storage facilities, caused them to stop pressing for the United States corn. The Mexican Ambassador has also made strong representations with regard to increased quotas for oats and peanuts. In the latter case, he expressed disappointment when the enlarged quota, of which Mexico would supply a large part, carried with it a two-cent duty increase.

American investors and exporters will become increasingly restive under the treatment accorded them in Mexico as a result of intensifying nationalistic demands by certain elements for restrictions on foreign capital and goods, and I believe the Department would be well advised to let the Mexican Government know how important this problem has become.

As I recommended in my memorandum of March 16,[4] I suggest you seek an early opportunity to discuss frankly with Ambassador Tello the unfortunate repercussions likely to result if it continues unchecked. The Ambassador has been able to obtain information for me that our Embassy could not obtain from Mexican sources, and he helped straighten out a problem concerning the military air transit agreement which seemed impossible of solution. I think we should seek his help oftener and his intervention in this one might give some small measure of success, whereas representations by our

[4] Not found in Department of State files.

people in Mexico, unsupported by possible counter measures, seem foredoomed to failure.

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206. Memorandum From the Officer in Charge of Mexican Affairs (Hughes) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, May 27, 1955.

SUBJECT

Outline of Problems to be Discussed with Mexican Ambassador[2]

In the light of our further conversation on May 23 with Ambassador White and Messrs. Newbegin and Neal, I have revised the outline of problems which you wish to discuss with Ambassador Tello.

1. Cooperation in Defense Matters

Separate memorandum prepared because of its high classification.[3]

2. Bilateral Air Transport Agreement

Efforts since 1946 to negotiate a bilateral air transport agreement have failed because of Mexico's refusal to give up monopoly on the Los Angeles–Mexico City route of Compañia Mexicana de Aviación, and because that Government insists upon protection for its airlines through monopolies or other means. Restriction on the number of flights to Los Angeles (3 a week) was lifted by the Civil Aeronautics Board after the Mexicans had assured us if we would "show our good faith" by doing so, they would then agree to a bilateral. The Miami route was obtained for Aerovias Guest by the same manner. The Mexican Government's latest proposal sent to Mr. White by Secretary of Communications Lazo on May 3rd is a very definite step backwards in that it requests even more than before. The United States desires are not clear at this moment because of the

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Limited Official Use.

[2] Apparently prepared for Holland's meeting with Tello on June 8; see *infra*.

[3] Not found in Department of State files.

CAB's most recent letter which will require clarification. Latest information is that CAB will withdraw the letter.

3. Mining Industry

Nothing has been done to encourage large scale exploration and development, badly needed to assure Mexico's economy, and existing large companies, principally American, are overtaxed.

4. Investment Policy

Although official Governmental attitude is one of encouragement for foreign private investment, the Administration, in an attempt to conciliate those who take an opposite view, has adopted an equivocal position, namely, that foreign capital should complement rather than supplant domestic capital in economic development. Certain Cabinet officials are strongly opposed to foreign private investments in Mexico, and the National Chamber of Transformation Industries and left-wing groups in general are carrying on a strong campaign against such investments. This campaign follows closely the Communist anti-American line.

A related problem is private ownership versus Government participation in industrial development. The immediate case in this category is the Olin–Mathiesen project for a fertilizer plant. Early reports indicated that President Ruiz Cortines favored substantial Government participation (as in the case of existing plants), although more recent reports, as yet unsubstantiated, are to the effect that a change in policy has occurred and that the fertilizer project will be left to private capital. (According to Allen Ellis the fertilizer project is not at present being pressed because the Texas Gulf Sulphur Company, affiliate of Olin–Mathiesen, is temporarily withholding participation pending outcome of negotiations for additional concessions for land in the Isthmus of Tehuantepec. The Embassy reports information indicating Mexican Government is interested in several small plants rather than a large one in the Isthmus as contemplated by Mathiesen and that Government may proceed with the Monclova plant with Montecatini participation.)

5. Import Restrictions

Mexico's policy with respect to imports is based upon the full and effective protection of domestic industries and of its balance of payments position. In the implementation of this policy, any product which is to the slightest degree competitive with articles produced in Mexico is considered to be a luxury or non-essential import, and its importation is restricted or prohibited as a result of increased tariffs or a system of import licenses, arbitrarily administered. The restrictions are often manipulated at the discretion of authorities as a

means of curtailing or prohibiting the importation of selected products, and they are not always applied as a considered policy of industrialization but at times have been motivated by political pressure or nationalistic urging. These restrictions limit the operation of free competitive enterprise in Mexico, they tend to affect imports from the United States more drastically than those of any other origin, and they reduce or destroy important Mexican markets for United States products.

While numerous complaints have been received with respect to actual or rumored restrictions, it is believed that the major problem for United States exporters is found in the uncertainties, delays and confusion of the system which is applicable to a constantly expanding list of articles. Items which have been the subject of recent complaints by American exporters, with a brief statement of the circumstances, as known to the Department, are:

Paper: Mexico is being increasingly selective in the types and grades of paper for which import licenses are issued. This has resulted in the elimination of imports of various qualities and types of paper—bond, ledger, onionskin, manifold and clay coated book paper being examples—which are not duplicated by Mexican paper mills. The reason given for refusal is that substitutes are available in Mexico, even if the quality is not the same.

Paper cartons for wet-packaged frozen shrimp: This complaint was based upon a report that the importation of this article was to be prohibited and that the quality of a substitute Mexican product was not acceptable for the purpose.

Electric concrete vibrators: This equipment was reported to have been placed under license although it is not manufactured in Mexico and is essential in construction work.

Wood-cased pencils: The United States manufacturer claimed that his small but important Mexican market, built up as a result of long years of effort, has been cut off by refusal of Mexican authorities to issue import licenses.

Linoleum and felt base rugs: No comparable merchandise is manufactured in Mexico, but, in line with the primary purpose of the decree of June 5, 1954 (subjecting many items to import control) to safeguard Mexico's foreign exchange position by curtailing drastically the importation of all non-essential and luxury items, it was determined officially that these articles are not essential to the economic welfare of Mexico and that Mexican consumers can easily get along with local rugs and carpeting.

Diesel motors: The Embassy reported on March 23 that the Mexican association of machinery importers and distributors were very much disturbed because Diesel Nacional, S.A., about to go into production, had petitioned Economía to restrict the importation of all machinery equipped with diesel motors ranging from 8 to 60 h.p. This request could be implemented easily under existing licensing requirements for machinery. The company claimed it would be in a position to supply all of Mexico's requirements for diesel motors of those sizes. The Embassy commented it was not at all unlikely that

action would be taken by the Ministry to restrict the importation of equipment with motors installed without determining whether or not the local product can be substituted. No report has been received that imports of machinery with motors installed have actually been restricted.

Pumps: Economía has been increasingly restrictive in permitting the importation of pumps, and in general all license applications covering pumps that are also made in Mexico are denied. There are a number of pump manufacturers in the country, with estimated capital investment of 40 million pesos. The five-member committee which passes on license applications consists of two representatives of pump manufacturers, two pump importers and distributors, and a representative of Economía who, having no knowledge of pumps, always decides with the manufacturers' representatives.

No one in the Government seems to be seriously preoccupied with the possible damage to Mexico's economy of the policy of favoring domestically made goods regardless of quality and adaptability to the needs of individual users.

We have not protested these restrictions, although we have been urgently requested to do so by affected interests, on the ground that there is no trade agreement between the two countries which would provide a legal basis for doing so. At the same time, however, the Mexicans have not hesitated to make strong representations whenever the possible restriction of one of their exported products is the subject of consideration by us. This has occurred in connection with tomato inspection and marketing procedures, the peanut quota, sugar, plywood, and lead and zinc.

You and Ambassador White agreed you will say to Ambassador Tello that the Department recognizes Mexico's necessity for controlling dollar imports but that you would request, because of individual hardship cases, that the Mexican Government discuss the matter before taking action, referring to the United States policy of public hearings before taking definitive action.

6. Radio Broadcasting

Mexican telecommunications officials have been reluctant to set a date to reconvene conversations suspended last December looking toward the conclusion of an agreement on radio broadcasting problems. These problems were regulated by the multilateral North American Regional Broadcasting Agreement until it expired in 1949. A new NARBA was negotiated in 1950 but Mexico has refused to become a party to it, and the United States has not yet ratified it. The only regulatory instrument now in effect between the two countries is a bilateral "Gentleman's Agreement" entered into in 1940 as an inducement to Mexico to sign the first NARBA, and it is more restrictive on United States than on Mexican broadcasters. A

provision of the "Gentleman's Agreement" makes United States broadcasters on certain channels cease operation at sun down in order to give protection to Mexican stations. Absence of an adequate agreement results in Mexican interference on channels to which United States stations have established prior claims through earlier use. Previous attempts to settle the matter have met with failure because Mexico has demanded more clear channels. There is now some slight possibility the Mexicans may agree to resuming conversations in late June or early July. If no agreement is reached the Gentleman's Agreement will probably be denounced by the United States.

7. Proposal to Buy Gas from PEMEX

A United States company has offered to buy gas from PEMEX but its efforts to enter into contract have been unsuccessful. A report from the Embassy in Mexico City said Texas Eastern proposed gas contract was for

200,000,000 cubic feet daily
at 14 cents per thousand
$28,000 daily
x 365 days per year
140000
168000
84000
$10,220,000 yearly income.

Our latest information is dated March 23, 1955. At that time the Embassy reported that PEMEX had received formal assurances that the United States Federal Power Commission will not construe a United States Supreme Court decision in the Phillips case as being applicable to the contemplated contract—that is, to control prices and conditions under which PEMEX could sell its gas and Texas Eastern buy it. That being the case, Texas Eastern authorities went to Mexico and PEMEX stated in late March that the contract probably would be signed "in the near future".

The Embassy also commented:

"This contract could eventually place PEMEX in a better financial position . . . [4] however, it is not seen how this contract can yield any prompt financial results because construction of the gas absorption plant at Reynosa has been suspended because of the existing financial stringency."

[4] Ellipsis in the source text.

A way out would be to obtain advance funds from the gas purchaser, who could recover investment through discount on gas to be delivered.

8. Clearance for Publication of Documents in Foreign Relations for 1938

Last fall the Embassy in Mexico City submitted to the Mexican Foreign Office galley proofs of correspondence exchanged with the Mexican Government in 1938 concerning the expropriation of the petroleum industry and requested their concurrence to publication in *Foreign Relations,* in accordance with usual courtesy practice. Later I gave a set of the galleys to the Mexican Embassy here and assured them that we would adhere to a promise not to publish a telegram dated March 27, 1938 which we promised the Mexicans in 1938 we would not publish. I requested an early reply since the publication of the particular volume was being held up. I have made a number of inquiries, all without success. We are under some pressure to publish the volume for 1938, and if the Mexicans don't give us an answer, we will go ahead and publish our documents without their side being presented by publication of the Mexican correspondence addressed to us.

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207. Memorandum of a Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Mexican Ambassador (Tello), Washington, June 8, 1955[1]

SUBJECT

Mexico: Decrees Increasing Duties on U.S. Exports; Encouragement of Private Enterprise

Today I had lunch with the Mexican Ambassador.

I told him that we were receiving a good many complaints from U.S. exporters regarding Mexican decrees increasing duties on U.S. exports without warning and occasionally with prejudice to long established business connections. I asked the Ambassador whether he felt that Mexico would be disposed to give the United States Government an opportunity to express its views on proposed tariff increases before they were placed in effect. I pointed out to him that

[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Confidential. Drafted by Holland.

under our system not only the Mexican Government, but Mexican exporters have such an opportunity here. I said that were such an opportunity afforded us there might be occasions on which we could indicate means whereby the Mexican objectives in proposing a tariff increase could be achieved, but with an impact on our own exporters less prejudicial than would otherwise be the case. I stated that I could anticipate the fear that some Mexican Government officials might entertain that if we were given an opportunity to express our views prior to the effective date of proposed tariff increases we might seek to exert pressures to prevent the step. I said that the success of any such arrangement would depend on the understanding and restraint with which each of the two Governments expressed their views.

In response Ambassador Tello said:

1. That Mexico, like the United States, was following a policy of protecting its industries from foreign competition in order to encourage industrialization.

2. That Mexico through its tariff sought to protect its balance of payments position.

I replied that I could fully understand each of these points of view, but that I did not feel that they were inconsistent with the purely personal suggestion that I was making. He replied that he would write Mr. Carrillo Flores of my suggestion and ask for his views, which he would then pass on to me.

I then said that I was concerned at the number of reports which I was receiving and which, if accepted at their face value, would cause one to wonder whether the present Mexican administration was relying on the private enterprise system to the same extent as its predecessor.

The Ambassador said that he understood my concern, and that it would not be necessary for me to cite him examples which provoked it. He said that the Mexican Government was anxious to make a greater quantity of goods and services accessible to the bulk of its people. He used the hypothetical case of a privately operated shirt factory which could produce and sell shirts profitably at 20 pesos each. He pointed out that, if there were 300,000 Mexican citizens who could afford to pay this price and an equal number who could not pay more than 5 pesos, the Government should enter the shirt-manufacturing business for the purpose of producing shirts and making them available to the latter group only until such time as their purchasing power should increase to a point that enabled them to pass to the first group.

Ambassador Tello offered as an example the electrical industry. He argued that the Mexican Electricity Commission produced substantial quantities of power which it supplied to consumers through

the existing private distribution companies. He said that because the Commission sought no profits the power which it supplied to distributing companies was sold at a cheap price, which enabled the latter to furnish it to consumers at a price cheaper than would be possible if it had been produced by the private companies themselves.

He said that he fully understood the great reliance placed by the United States Government on private enterprise; that this was understandable because we were settled by a people which had come to establish itself permanently rather than to conquer and exploit. He then went on to argue that, as a matter of fact, Mexico offered attractive conditions to United States investors.

I replied that my concern was not that Mexico offer more attractive opportunities to United States investors, but that it rely more on the private enterprise system. I expressed my own conviction that the private businessman, and particularly the Mexican businessman, could do more for his own country's economy than could the Mexican Government.

I stated that this had certainly been our opinion, and that I felt the same principle would hold true in Mexico.

The Ambassador replied that the Mexican businessman could not contribute much to Mexico's development because of lack of capital. I pointed out that under the existing policy of the Export-Import Bank applications for economic development loans from private applicants received more favorable attention than did those from governments seeking to invade the field of private enterprise.

The Ambassador replied that while in Mexico earlier in the week he had recounted to Minister Carrillo Flores my concern on this general subject; that the latter had stated that he was going to write the Ambassador a letter on the subject and attach a list of new enterprises recently established in Mexico by foreign investors, both of U.S. and other nationalities. The Ambassador said that when he received this letter he would get in touch with me in order that we might talk further.

I had to break off the conference at this time but shall find another opportunity to continue my talks with the Ambassador.

208. Memorandum for the Files, by the Ambassador in Mexico (White)[1]

Mexico City, June 10, 1955.

SUBJECT

Call on the Minister of Finance, Señor Carrillo Flores

I called this morning on the Minister of Finance, Señor Antonio Carrillo Flores. I gave him first the messages from his friends in the United States, Messrs. Burgess, Overby, Holland, Garner, and General Edgerton. He was pleased on getting these messages.

I then reminded him that before I left he had asked me to look into which institution he should deal with in connection with the proposed railways rehabilitation loan; the World Bank or the Export Import Bank. I told him that I had done so and had discussed it in the Department, at the Treasury with Mr. Burgess and Mr. Overby, and with Mr. Garner of the World Bank, and General Edgerton of the Export Import Bank. General Edgerton authorized me to tell him that there is no reason why he should not take it up with the World Bank and to assure him that if they would do so the friendly disposition of the Export Import Bank toward Mexico would not be affected in the slightest degree. The Treasury officials had felt that the World Bank is perhaps the most appropriate institution because this type of financing falls more clearly within the scope of what the World Bank was set up for. The Department had the same view and Mr. Garner had expressed his readiness to go ahead with an investigation of the railroad situation in Mexico with a view to determining what is required and on what basis the Bank could enter into the project.

Mr. Carrillo expressed his appreciation on my bringing him this information. He said that he had been somewhat concerned in the matter because Senator Amorós has sent a representative to Washington to discuss another matter of financing, which, on inquiry from me he confirmed was for the rehabilitation in the United States of diesel locomotives now out of service, and this representative had been queried by officials of the Export Import Bank—not General Edgerton—as to why they were taking the major financing to the other institution. He then asked me if I would tell him unofficially and informally and as a friend, what I would do in the circumstances. I told him that I would open negotiations with the World Bank. Mr. Carrillo said he would report this at once to the President

[1] Source: Department of State, Central Files, 812.00/6–1055. Confidential.

because the President was concerned that they should do nothing that would upset their relationship with either institution.

Mr. Carrillo then asked me what I thought personally is the function of the Export Import Bank in the Mexican situation. I told him that it was set up primarily to finance exports from the United States abroad in cases where commercial banking institutions were unwilling or unable to do so. Mr. Carrillo said he understood that that was the basis on which the Bank was set up but that there was talk at the Rio Conference[2] last year that the scope of the Bank's activities was being enlarged and that it would be in a position to finance other than exports. He said that he had just had a long talk, before I came in, with Mr. Chavez, the Minister of Hydraulic Resources, regarding obtaining funds for irrigation purposes. This work is very important to Mexico but Mexico does not have the resources to meet this situation and, hence, Mr. Chavez had discussed with him the possibility of getting funds from the Export Import Bank. Mr. Carrillo, in reply to inquiry from me, said that there is no construction machinery or material from the United States involved in this. This has to do with the El Fuerte project in northern Sinaloa near the Sonora boundary. I told the Minister that this was the first I had heard of this project, that it had not come up during the time I was in Washington, and that I was, therefore, unable to express an opinion in the matter.

I told the Minister that I had discussed the matter of a double taxation agreement while in Washington and had been told by Secretary Overby that the Treasury is perfectly willing to enter into negotiations on this matter and that any immediate delay is a purely mechanical one due to lack of personnel. I told him that Mr. Sauer, whom he knows quite well, who was working on these matters in the Treasury, has left the Treasury and gone back to the Export Import Bank. This leaves the Treasury shorthanded and also negotiations are presently proceeding with Colombia and Cuba and for that reason they would be unable to take on any new negotiations until the early autumn. They could probably do so in about October in Mexico, or perhaps a bit earlier if the negotiations are held in Washington. Mr. Carrillo expressed his appreciation on getting this information and asked if I could get for him, when concluded, copies of the arrangements come to with Colombia and Cuba. I told him that I would write to Washington regarding this.

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[2] The Meeting of Ministers of Finance or Economy of the American Republics as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council (commonly called the Rio Economic Conference) was held at Quitandinha, Brazil, November 22–December 2, 1954. For documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 313 ff.

I told Mr. Carrillo that Mr. Holland had asked me to say that he felt it would be advantageous to PEMEX to sell natural gas to the United States. I said it was our understanding that a contract was under consideration with a Texas company and that this agreement, if consummated, would net PEMEX over ten million dollars yearly. I said that this would seem to be very advantageous to Mexico with its necessity to get dollars and especially to PEMEX and would relieve by that much the demands of PEMEX on the national treasury. I pointed out that natural gas does not do Mexico much good in the ground and that also certain of it is, in my understanding, lost into the air and that it would seem to be a very advantageous thing for Mexico,

Mr. Carrillo said he fully agreed and had supported this project and that he understands that the negotiations have gotten to the point where there is only one matter still not agreed upon, namely, who shall be the arbiter in case of a dispute between PEMEX and the American company. Mr. Carrillo said he would report this to the President and see if the matter cannot be pushed to a conclusion.

I then told the Minister that there are misgivings in Washington regarding the present investment policy of Mexico and the question of private ownership versus Government ownership. I told the Minister that I felt I did not need to explain to him that one of the primary objectives of the Communists in all Latin America is to break down the economies of the countries and that they feel that this objective can be advanced by having as many enterprises as possible taken over and run by the Government because they know that they will not be as effectively administered as if in private hands. This will all become a burden on the national treasuries and impair their economies. They are, of course, opposed to American investments in these countries as part of their general anti-American activities.

I pointed out to the Minister how disastrous had been Government administration of the railways in the United States during World War I. As a result, the railroads were promptly turned back to private management after the War and in World War II the railroads were left under private management with vastly better results then in the First World War.

I gave examples of my personal knowledge of the inefficient management of the Spanish railways and telegraphs by the Government, and also alluded to the fact that socialism had pretty well wrecked the British economy and just recently the British electorate had shown very good judgment in voting against a return to that system.

I said that since my return I had read an editorial in *Excelsior* stating that the solution of the power shortage in the Bajio region of

Mexico is one that should be tackled by private interest in that region and that they should not look to the national treasury to do the job. I said that I felt pretty well convinced that had the power companies in recent years been given proper returns on their investments by rates that would not only provide for that but for plowing some profits back into the industry, there would have been no difficulty in getting private capital to put in the plant as necessary to prevent this power shortage.

Mr. Carrillo at once said that it is the policy of the Government to support private enterprise and that the Government has gone so far as to turn over the control of the Government-owned power installations at Chapala to local private interests. He sent for correspondence and showed me a letter he had signed by eight or ten leading citizens in that district saying they would accept to become directors of the company, being the majority of the board, and that they would raise locally twenty-two and a half million pesos for one part of this work, and two and a half million for another, for a total of twenty-five million pesos.

I told the Minister that this was very welcome news to me and I thought they were on the right track. I said the important thing now, if this policy is going through to success, is to convince the Mexican capitalists that from now on they will get wholehearted Government support in the form of proper rates and a minimum of harassment in conducting these enterprises. Because this has not existed in the past there has been a reluctance of Mexicans to invest in enterprises in Mexico, and hence, their money has gone abroad. What he has told me is very encouraging and I hope that it will be followed out effectively all down the line so that minor officials, who have considerable authority in many important matters connected with such enterprises, will not throw monkey wrenches in through harassing restrictions.

I told the Minister that while he and certain others understand the requirements of private enterprise I had a feeling that there is a considerable segment in Mexico, including a number in the Government, who do not appreciate that these enterprises cannot be set up and then just administered. First of all they need able management and rates which will permit them to pay a just return on the capital involved, and also a chance to have earnings that can be plowed back into the industry for maintenance and other very necessary purposes and to attract new capital for necessary expansion. Mexico's is an expanding economy and as soon as people get confidence that they can go ahead with these private enterprises on a sound basis the capital will come in and the country should boom. I pointed out that the A.T.&T. in the United States has put in somewhere in the order of five billion dollars into expanding their

plant and operations since the war. Just recently they have been financing a new debenture issue of some $660,000,000. In countries with an expanding economy these utilities, and railroads are among them, need constantly new capital to keep up with the demands and provide the services required. The A.T.&T. has been able to attract this vast amount of private capital because the regulatory bodies in the United States have permitted it rates so that it can continue paying its $9 a year dividend, which is what attracts new capital and also have something to put back into the business both for maintenance, depreciation and expansion.

The failure of Mexico to do so in the past has limited the growth of these companies and brought about power shortages, and the possibility to meet the growing demand for telephone and power service. I also told the Minister that I am trying to get some figures to show just what the American railroads have done in this respect since the war. All the large successful corporations in the United States, in whatever field of endeavor, put back a considerable amount of their earnings into expansion, modernization of equipment, maintenance, etc., and that is the reason our economy has gone ahead.

The Minister agreed with the above, thought that American companies in Mexico were expanding. I told him that that is the case. Their problem is to convince Mexican capital that it can safely and profitably invest in enterprises that will help Mexico's economy. He said a number of Mexican enterprises are expanding. I said that that is, of course, very gratifying but that there is much more needed to put the Mexican economy on a sound basis.

As to any hostility to American capital, he said he did not know of such and I said that while I could not tell him a specific incident because it had escaped my mind, I understood that in a recent case a project was brought practically to completion when the Ministry of Economia vetoed any American capital coming into it. I also cited the Olin–Mathieson case[3] where they were asked to take a minority interest. He said he understood that the Mathieson people were agreeable to that. I said I had not come in to discuss their matter at this time with the Minister; that I understood that they had in mind that the majority capital would be private capital and not Government capital. I said I could not see why the Government would want to get into the fertilizer business. He said it was his understanding that the Government was encouraging setting up of some smaller plants such as the one in collaboration with the Montecatini inter-

[3] The Olin–Mathieson Co. proposed the construction of a fertilizer plant in the Tehuantepec area.

ests at Monclova[4] and also some other smaller ones and that it was his understanding that there would be no Government capital in those enterprises. I said that that was all to the good but that it was my understanding that the Government was insisting on participation in the Olin–Mathieson project. The Minister said he would discuss this matter with the President.

In the course of this conversation I also mentioned that the new rates for the Tampico Power Company had been all agreed to and then at the last minute had been vetoed by the Ministry of Economia. Mr. Carrillo Flores said that this was purely because the President did not want rate increases just prior to the elections on July 3, but that immediately after the elections the rates will be granted. He said he had explained this situation to both Mr. Matson of American and Foreign Power, and Mr. Draper of Mex Light, and he thought they understood the situation.

I asked the Minister if he could tell me of any new developments in connection with the mining industry. He said that the difficulty there, of course, is taxation and he needs these revenues to balance his budget. However, he has recently suggested to the mining industry that the export taxes be used as an offset to their income taxes when they can show that this keeps them from making adequate profits. He said this would have a double benefit to the companies because they get offset from the United States Treasury for income taxes paid in Mexico and that they will also be able to use the export taxes to offset their income taxes in Mexico. He said that the mining industry was not very enthusiastic about this; they want the export tax repealed. He again stressed his need for revenues. I asked if this measure was to be made effective and he said it will be submitted to the Congress when it meets in September.

The Minister made the observation that the mining companies, nevertheless, are making money. I told him it was my understanding that this is being done at the expense of the economy and resources of Mexico because to make ends meet they have to mine just the higher grade ores and pass by the lower grade ores. I said I have been informed that when that is done it is rare, if ever, that those low grade ores are ever recovered. It is too expensive to do so and more expensive after the higher grade ores have been taken out than it would be to take out the lower grade ores initially and that this means that this part of the ore resources of Mexico are being dissipated and the ores will be exhausted at an earlier date. The Minister had no comment on this phase of the matter.

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[4] The Montecatini organization planned to build an ammonium phosphate plant at Monclova.

Finally, I told the Minister that Mexico's import restrictions are causing considerable uneasiness in the United States. Higher duties are put on, quotas are put on, and also in some cases there is an outright prohibition of importation. I said that we fully appreciate the necessity for Mexico to conserve its dollar outgo and that measures to that effect are necessary, but it seemed often to be done in a way that appeared arbitrary and sometimes against the best interests of Mexico because restrictions are put on importation of certain products which are not produced in Mexico and which are necessary to Mexico's economy. Often they are told to take inferior substitutes made locally which do not meet the situation. Cartons for the wet packing of frozen shrimp is one case. What is produced locally does not stand up under these conditions and it might very well affect the export of shrimp. Also, certain pumps have been excluded because other types of pumps are made in Mexico, but these other types often do not fit the requirements and, hence, industry is handicapped.

I emphasized again that we appreciate fully their need to husband their dollar resources, but I was wondering if it cannot be done in a little different way. I said that while we have not in practice been protesting all these measures, the Mexicans are very active in protesting any threat of raising taxes on Mexican products, such as lead and zinc, and asking for higher quotas on sugar and plywood, etc. I said that in Mexico an exporter from the United States often hears of these restrictive measures only after the decrees have been published. In the United States we follow a system of public hearings so that everybody affected can present their case. If they make a good case they often get what they want. Sometimes they don't, but they at least have the feeling that they have had their day in Court and have been heard and have expressed their point of view. I said that only today I read in the *Excelsior* that the Mexicans were asking for a hearing on the matter of sugar quotas. They had also done so in the case of plywood, and I understand that the Tariff Commission, after hearing all parties and investigating the situation, had come to the conclusion that it would not be necessary for it to recommend more stringent quotas on plywood. Despite the fact that Mexico denounced our trade agreement some time ago, and, therefore, really has no standing in asking for the benefits of our system, they have been granted a hearing in a number of cases and they have certainly not been bashful in advancing both to Government officials and publicly in the press any grievances they think they may have. I said that what I should like to suggest would be that some such arrangement be instituted here by which these people could be heard in advance and not be confronted with a fait accompli. I said if they did not feel they could hold such public

hearings, another possibility would be for the matter to be discussed quite unofficially and informally with the Economic Section of the Embassy. There would be no publicity about it, but it might be possible to work out procedures which would accomplish what the Mexicans want of conserving their dollar exchange and at the same time not penalize unduly certain exporters from the United States.

The Minister said that while this matter is really one under the jurisdiction of the Department of Economia, he would be glad to discuss the matter with the President. I told the Minister I was very happy that he would do this and added that certain Americans who had had dealings with Economia had the feeling that they had two strikes against them to begin with because of hostility there against American enterprise.

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209. Letter From the President to the Secretary of State[1]

Washington, June 14, 1955.

DEAR FOSTER: I probably have written you more often on the subject of Mexico than any other single matter. This is yet another communication, just for your personal contemplation and concerning which I should like to talk to you some time.

I have the uneasy feeling that somewhere along the line we are not really appreciative of Mexico's economic and political and social problems. I believe that there is a holdover in our country today of the thought that Mexico is inherently an enemy of ours—I rather sense this feeling often when I hear people talking of the country.

Visits from foreign heads of state are normally a bore, but I am so earnestly of the opinion that the soundness and friendliness of our relationships with Mexico must be a first and continuing concern of ours, that if we could arrange for an early visit of President Ruiz Cortines I would be perfectly willing to go through with it. I think that possibly you and I could profit a lot to hear his personal thoughts about his own country and its needs, especially capital—public and private. I should like to hear his thoughts on PEMEX, because I believe that here is another subject that normally we may have looked at with prejudiced minds, because of our hatred of expropriation and socialism and so on.

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential.

I understand that the Soviets have the largest Embassy in Mexico City and that they are constantly carrying on a real propaganda drive in order to gain advantage in that region.

If we should consider any such thing as this seriously, I do not believe that we would have to prepare a large agenda for the meeting. What I am thinking about is first hand impressions, as well as paying a compliment to the country through the entertainment of their Chief Executive. As a matter of fact, I was thinking of something as simple as asking him and his wife up here for perhaps the fifth and sixth of July. I would be glad to send my plane to Laredo, or wherever he crosses the border, to meet him, and then send him back to the same place.

This suggestion is not intended as something to be circulated for staff study; at your convenience I want to talk to you about it.[2]

As ever,[3]

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[2] President Ruiz Cortines did not visit the United States in 1955. In a letter to Dulles dated January 18, 1956, President Eisenhower raised one possibility of meeting simultaneously with the heads of the Canadian and Mexican Governments. The President suggested that in lieu of such a meeting, he would send his brother Milton Eisenhower to both countries. The President wrote in part: "What I am thinking of is some gesture that will imply our realization that these two nations, by reasons of geography, have a special meaning to us in all phases of international existence." (*Ibid.*, Dulles–Herter Series) In a letter to the President dated January 20, 1956, Dulles stated that President Ruiz Cortines and Mexican Foreign Minister Luis Padilla Nervo had accepted an invitation to meet with President Eisenhower and Canadian Prime Minister Louis S. St. Laurent in March. (*Ibid.*)

[3] The source text is not signed.

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210. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Mexico (White)[1]

Washington, June 20, 1955.

DEAR FRANCIS: I have read with much interest your memorandum of conversation on June 10 with Carrillo Flores.[2]

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[1] Source: Department of State, Central Files, 411.1241/6–1055. Confidential. In a memorandum to Holland dated June 24, Hughes stated that she forwarded Holland's June 20 letter to White under cover of a letter of her own, dated June 24. (*Ibid.*, 812.00/6–1055) None of the enclosures was found with the source text.

[2] Document 208.

If a representative has discussed with the Export-Import Bank the proposal to rehabilitate the Diesel locomotives, then our lines of communication are down, because I had affirmatively requested that we be informed of any overtures from the Mexicans on this subject at the Bank. I shall renew my inquiry.

Carrillo's inquiry as to whether the Export-Import Bank would finance an irrigation project brings up a basic problem which has been troubling us at the Bank for some time. At the Rio Conference and over and over again on other occasions we have stated that the Export-Import Bank will attempt to satisfy all applications for *sound* economic development loans where capital is not logically forthcoming from private enterprise or from the International Bank. We have never in any of these statements set out as a requirement that the loan must be to finance the exportation of U.S. equipment. Despite this fact, representatives of the Bank from time to time advise applicants that loans will be made only for the purpose of financing U.S. exports. These conflicting statements understandably bewilder applicants at the Bank. This bewilderment is intensified by the fact that the Bank makes loans which do not relate to an exportation of U.S. equipment. I believe I am accurate in saying that it was the Export-Import Bank and not the IBRD which recently authorized a substantial loan for an irrigation project in northern Peru.[3]

I shall attempt to utilize the irrigation project proposal in Mexico to obtain a clear-cut decision on policy which will eliminate once and for all this needless confusion as to what the Bank will do and what it won't do. However, aside from this policy decision, we have the question of whether it is in the interest of our Government at this time to extend further loans to Mexico. You will recall that we feel that the Mexicans should give some demonstration of their own adherence to sound policies before additional credits are forthcoming from this side.

Mr. Carrillo has had some heartening things to say to you regarding Mexico's general attitude toward private enterprise.

First, he says that the contract for the sale of gas is held up only on the question of who should be the arbiter in case of a dispute. If it can be accomplished tactfully, I would get further information on this situation. Who is the American company with whom PEMEX is negotiating? Is there any reason why we should not verify from them whether this is, in fact, the only obstacle to signing a contract? I fear that such an investigation would reveal that there are additional obstacles, and that they are attributable to those in the

[3] A handwritten marginal notation at this point in the source text reads: "Wrong—I find it was the IBRD."

Mexican Government who are determined to see that no contract for the sale of gas is executed.

On the same subject of exportation of dollar earning materials, it might be wise to raise with Mr. Carrillo Mexico's short-sighted and nationalistic policy which prohibits the exportation of iron ore, a commodity of which they have huge excesses and for which there is an active demand in the United States. The Embassy's recent despatch No. 1895[4] sets out rather clearly Mexico's policy on this subject and enumerates instances in which iron ore could be sold but where existing policy obstructs the sale.

I am interested to see his statement that Olin–Mathieson is satisfied to take a minority position in the fertilizer plant. I shall attempt to determine here the real attitude of the company and shall report to you. If they are satisfied with a minority position, there is nothing we can do about it; however, I believe that it would be unfortunate if substantial American interests were to afford such encouragement to the Mexican Government to invade the field of private enterprise.

A few days ago I had a talk with Matson of American & Foreign Power. He confirmed Carrillo's statements to you regarding the circumstances surrounding the vetoing of the power increase in the Tampico area.

At the bottom of page 5 you refer to an incident of hostility to American investment which had escaped your mind. You are in all probability referring to the decision of the Ministry of Economy to refuse to allow Mr. Murchison of Dallas and his associates to make a substantial investment in the construction of a gas transmission line from the Texas border through Monterrey and on to Torreón. A careful and well worked out proposal was submitted to the Mexican Government requesting authority to make such an investment. It was rejected by Loyo with the statement that it was the Government's intention to retain for itself the industry of transmitting gas. I am attaching hereto a letter . . . to Gerald Mann reporting the incident. . . .

His comments on the taxation of the mining industry are interesting. In that connection, I would like to know whether you have had brought to your attention a letter drafted for Carrillo's signature on this subject in August of 1953. I am attaching a copy of it, as well as a copy of a letter from Mendelsohn of Cananea Consolidated Copper Company, commenting on the Carrillo letter. You will observe that the original was never delivered. I think that it becomes rather important to determine, if possible, whether this

[4] Despatch 1895 from Mexico City, June 1. (Department of State, Central Files, 400.129/6–155)

letter does in fact reflect Carrillo's convictions regarding the mining industry. If so, then no solution which would protect the Government's need for revenues and at the same time afford some relief to the mining industry is going to be adopted.

The report of the generation of electrical power in the Chapala area is most interesting. I shall look forward with great interest to any further information that you may acquire about this.

I shall try to have another talk with Tello in the course of this week. However, I am dubious as to their usefulness for any purpose other than to let the Foreign Minister know of our concern. Tello's response is always (and understandably so) that he will report to his Government. There the matter ends.

In a recent issue of *Newsweek*[5] there is an interesting article on the current trend in Mexico. I shall ask that a copy be attached to this letter.[6]

With best wishes and warmest regards, I am

Sincerely,

Henry F. Holland[7]

P.S. Since dictating the foregoing I have received a letter from Horace Braun on the problem of sale of Mexican gas. In it he quotes Mr. Bermúdez[8] on the reason why a contract has not been executed. The reason has no relation to that expressed by Carrillo Flores to you. Horace says:

"Briefly, he repeated that Mexico will not agree to any long-term contract for the export of its gas unless the contract contains the escalator clause permitting changes of price under agreed conditions, and also the most-favored-nation clause. Furthermore, these stipulations must not be subject to review, control or possible cancellation by any authority outside of Mexico."

Since several representations have been made to Mr. Bermúdez demonstrating that this is not a valid objection, one is left with the fear that the sale is being blocked by sectors of the Government which oppose an exportation of natural gas.

H.F.H.

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[5] The handwritten notation "June 20" appears at this point in the source text.

[6] The following handwritten notation appears at this point in the source text: "Also an extreme and somewhat inaccurate article is in *U.S. News & World Report* for June 17."

[7] Printed from a copy which bears this typed signature.

[8] Antonio Bermúdez, Director General of Petróleos Mexicanos (PEMEX).

211. Memorandum From the Secretary of State to the President[1]

Washington, August 10, 1955.

SUBJECT

Bilateral Air Transport Agreement with Mexico

The attached outline of procedure in the negotiation of a bilateral air transport agreement with Mexico has been agreed upon by the Department and the Civil Aeronautics Board. (Tab A)[2] Instructions to Ambassador White have been drafted (Tab B) authorizing him to discuss with the President of Mexico, in accordance with the latter's specific request, the air routes desired by the United States and United States comments on the latest Mexican route proposal. It is contemplated that if favorable Mexican reaction is not received within a reasonable length of time, the Civil Aeronautics Board will issue an order requiring the Compania Mexicana de Aviacion to show cause why its services between Mexico City and Los Angeles should not be curtailed or terminated. At the same time the Civil Aeronautics Board will assign a date for hearing the application of Guest Aerovias Mexico for renewal of its permit to operate between Miami and Mexico City.

An indication of whether this procedure meets with your approval is respectfully requested. It has been developed in consultation with Mr. Gerald Morgan of your staff.[3]

JFD

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[1] Source: Department of State, Central Files, 611.1294/8–1055. Confidential.

[2] Neither tab found attached to the source text.

[3] The President initialed his approval of this memorandum. In a memorandum dated August 16 to the Bureau of Inter-American Affairs, the Secretary's Special Assistant Roderic L. O'Connor wrote: "Gerald Morgan, Counsel to the President, called me yesterday and said that the President had approved the procedure as outlined in the Secretary's memorandum of August 10. However, he added that the President wanted to make certain that Ambassador White also approved this procedure and that the President's approval was conditional upon Ambassador White's approval. I spoke to Mr. Holland this morning who said that Ambassador White had in fact participated in drawing up this procedure, was thoroughly conversant with it, and approved it." (Department of State, Central Files, 611.1294/8–1055)

212. Excerpt From a Memorandum of a Conversation Between the Ambassador in Mexico (White) and the Mexican Minister of Finance (Carrillo Flores), Mexico City, August 20, 1955[1]

Mr. Carrillo Flores then referred to the railroad situation and their recent talks with the Export-Import Bank.

I told him that I had attended a directors' meeting of the Export-Import Bank while in Washington and that Secretaries Holland and Waugh and Mrs. Hughes were also present. He asked if the World Bank was represented there and I told him that they were not, that there was nobody but directors of the bank and those whom I have just mentioned.

I said the question was brought up whether Señor Carrillo had felt from my talks with him in June that we felt that he should deal with the World Bank exclusively and not with the Export-Import Bank. I said that I had repeated to them that before leaving here for home in April Mr. Carrillo had asked me whether I could give him the answer then, or if not, would I bring him the answer when I returned whether Mexico could feel free to deal with the World Bank in this matter and if they did so, would it cause umbrage to the Export-Import Bank.

I said that I told them Mr. Carrillo had said that Mexico has the best of relations with both institutions and wants to maintain them; that Mexico feels grateful to the World Bank for giving them a loan for rehabilitating the Pacific Railway and also for the timing of their announcement of the 90 million dollar credit for fertilizers and other matters and that also there is an advantage to Mexico in a loan from the World Bank for the railways in that they would be free to purchase materials in any market. On the other hand, they are very grateful to the Export-Import Bank for the financing it has given them in the past and for the financing of the railroads by opening a line of credit of 51 million dollars and for paying some 20 million dollars of back obligations of the railroad under the credit in December which was most effective in raising the dollar reserves up to the 200 million dollar goal. Therefore, they have the best of

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[1] Source: Department of State, Central Files, 912.712/9–155. Confidential. Drafted by White. Transmitted to Jack C. Corbett, Director of the Office of International Financial and Development Policy, under cover of a memorandum from Ruth M. Hughes of September 1. In her memorandum Hughes wrote: "On August 20, Ambassador White and the Mexican Minister of Finance had a five and one-half hour talk on numerous aspects of United States-Mexican relations. There is attached, in duplicate, a copy of the sections of the memorandum of the conversation which refer to the Export-Import Bank and its dealings with Mexico." (*Ibid.*) The source text is printed in its entirety.

relations with both institutions and both he and the President were anxious to maintain those relations. Apparently, the World Bank had shown a willingness to study the railway situation and that was what had prompted Mr. Carrillo's inquiry to me. Mr. Carrillo consented that that was the fact. I said that I had discussed the matter in Washington in May with General Edgerton, who was also present at the meeting in August, and that General Edgerton had told me that if Mexico wanted to discuss a large railway rehabilitation plan with the World Bank, the Export-Import Bank will have no objection thereto and that it would in no wise affect the friendly feeling and attitude of the Bank toward Mexico. I said that General Edgerton had reaffirmed that statement. I told him I had discussed it also with Messrs. Burgess and Overby at the Treasury and they had no objection and they had expressed the thought that the World Bank is perhaps the appropriate institution for such a loan in study because it was more or less set up for that purpose. I said I had reported this to Mr. Carrillo in June and that it was my interpretation that in answering Mr. Carrillo Flores' question I was expressing the view that I got in Washington that Mexico was at liberty to discuss the matter with whichever of the two institutions it preferred and that his position would not thereby be affected vis-à-vis the other institution.

I said there then ensued a discussion among the Board as to their position at present. I said nearly everyone there expressed an opinion and while all were apparently saying the same thing, it was being said in a little different way, and Mr. Holland had suggested the Bank send him a memorandum so that I could know exactly what the position is and be sure I was interpreting it correctly.

I said that I had just received a copy of that memorandum dated August 12[2] and I read it to Mr. Carrillo. I said that the position was that the bank had given a credit in 1950 of 150 million dollars to Mexico and they did not want Mexico to feel that they were now unwilling to allot the balance of $23,260,000 to Mexico and, therefore, they were prepared to give consideration to an application from Nacional Financiera for a credit for the benefit of the National Railways up to the amount still unallocated.

I emphasized a couple of times the sentence in the third paragraph of the memorandum reading:

"In considering any such application, the Bank will want to satisfy inself that the program to be financed by the credit will make a real contribution to the improvement of the National Railways."

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[2] Not printed. (*Ibid.*, 812.10/8–1255)

Mr. Carrillo said he understood that fully; that, naturally, they would want to know that the money was properly spent and that the money would be of an advantage to the railways and to Mexico.

I said I did not know how this 23 million would fit into the larger program that the Government had in mind. There is no such large program before the Bank—and it is not expressing any opinion on it one way or the other, it is merely saying that at this time it is prepared to consider the allocation to the railways of only the balance of the existing line of credit.

Mr. Carrillo said he understood that and would immediately report the matter to the President. When he was leaving he asked me whether he might have a copy of General Edgerton's memorandum and I told him that I had but one copy but would have others made and would send him one. This I am doing.

Mr. Carrillo said that Senator Amorós would rather continue with the Export-Import Bank than go to the World Bank because he has dealt with them over a period of years and he and they know one another and he is reluctant to undertake the work of getting acquainted with a new institution but is perfectly willing to do so if the President so desires.

As to his desire to get loans for small power companies, Mr. Carrillo said he would give me the background of that. There are these small power companies, mostly in the northern part of Mexico, who would like to have credits of 100 thousand dollars or so. However, as they are small institutions they cannot afford to send somebody to Washington to negotiate for that amount. He thought it would have a good effect psychologically, if we could broaden the base of lending of the Export-Import Bank so that these smaller companies would also get assistance and not have it limited to just the larger companies. For that reason he would like to have a credit given to the Nacional Financiera which, in turn, could distribute it to the small companies. He was, therefore, very pleased with the last paragraph of General Edgerton's memorandum saying that the Bank is prepared also to consider an application from Nacional Financiera for credits for the benefit of private electric utility companies of Mexico and said he would report that to the President.

213. Letter From the Ambassador in Mexico (White) to the President[1]

Mexico City, August 29, 1955.

DEAR MR. PRESIDENT: This letter is in response to your request last month that I write to you regarding the situation in Mexico.

I have delayed it for a few days after my return here to check up again on the situation to be able to send you my considered opinion as of this date. The fuller details and background of the situation as I see it are contained in the annex to this letter which is an integral part hereof.

Due to the circumstances elaborated in the attachment, the policy of President Ruiz Cortines' administration at the outset was not very friendly to the United States. The dominant role was played by the group favoring nationalization of industry and resources and hostile to the competition of foreign enterprise. The steady deterioration of Mexico's balance of payments since 1951; the steady lowering of her gold and foreign exchange reserves; the unusually large quantity of liquid funds in the hands of the public; the unfavorable long-term outlook regarding "terms of trade"; the run on the peso in April 1954; the deferring of new investments by Mexican business men and industrialists through uncertainty as to the economic policies of the new Government increased the accumulation of idle bank deposits, and led to the devaluation of the peso in April 1954.

The press attacks on the United States at the time of the expiration January 15, 1954, of the bracero agreement[2] and the Mexican policy at the Inter-American Conference at Caracas[3] in

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Secret. Under cover of a letter dated August 29, Ambassador White transmitted a copy of this letter to Secretary Dulles. Another copy was transmitted to Assistant Secretary Holland, under cover of a letter from White dated August 30. A memorandum of conversation by Dulles dated June 21 records the President as stating in part that he "felt that with our long frontier with Mexico there was great need of better relations. He feared that we might be pressing too hard for a kind of government we wanted which was not necessarily what the Mexicans wanted. He said he would like to talk to Francis White if he was back in the country and spend some time with him reviewing the situation. I said we would arrange this." (Eisenhower Library, Dulles Papers, Meetings with the President) Copies of this memorandum were forwarded to Under Secretary Hoover and Assistant Secretary Holland.

[2] Documentation on the termination of the bracero agreement is printed in *Foreign Relations*, 1952–1954, vol. IV, pp. 1353 ff.

[3] Reference is to Mexico's abstention during voting on Resolution XCIII, "Declaration of Solidarity for the Preservation of the Political Integrity of the American States Against the Intervention of International Communism," approved on March 28, 1954, at the Tenth Inter-American Conference which met at Caracas, March 1–28, 1954. For text, see *Tenth Inter-American Conference: Report of the Delegation of the United States of*

March of that year, supporting the communist regime in Guatemala and hostile to the United States, together with the devaluation of the peso, brought such an outcry from the stable elements in Mexico, the banking groups, the Federated Chambers of Commerce, the Federation of Industrial Chambers of Commerce and the capitalists and fast-growing middle class groups that they caused the President to hold a long series of conferences to re-examine the Government's policy. At that time he also initiated very informal and personal talks with me at his residence in the evenings. As a result, President Ruiz Cortines ordered the Foreign Office to reverse completely its policy towards Guatemala and, furthermore, to adopt a policy of cooperation with the United States. This latter has resulted in settling a number of run-of-the-mill problems inherent in the relations between two countries, as well as a beginning of a discussion for the settlement of the outstanding claims of each country against the other. It also resulted in President Ruiz Cortines forming a more realistic view of the danger of communism not only in Guatemala but also in Mexico and asking for close cooperation with the Embassy in taking measures to combat communism here. This is a really big advance. It also resulted in the President supporting private industry in many concrete cases, the most important so far being the power industry and the telephone company.

I am convinced that President Ruiz Cortines wants to cooperate with us and he has told me so in all sincerity. In many cases he cannot proceed too rapidly but must prepare public opinion in advance. In this connection, however, he told me, well over a year ago and repeated on several occasions, that if the communists should force a showdown with us, Mexico would definitely be on our side.

Apart from the usual grist of problems that go constantly through the mill of diplomacy in relations between any two countries and which, while sometimes intricate and even seemingly frustrating to handle, do get solved in due course without fanfare or publicity, there are about a handful of outstanding problems between the two countries.

Attempts on our part to conclude a bi-lateral air transport agreement with Mexico have been made for the last ten years without success. The fact that President Ruiz Cortines has now taken an interest in the proposed agreement and has asked me to take it up with him personally rather than with the Minister or others in the Department of Communications, leads me to hope that dealt with on this basis a solution satisfactory to both countries may

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America with Related Documents (Department of State Publication 5692, Washington, 1955), pp. 156–158. For pertinent documentation regarding the resolution, see *Foreign Relations*, 1952–1954, vol. IV, pp. 264 ff.

be found. If not the procedures agreed on in Washington to follow will cause the Mexicans to make clamorous protest as in the case of sugar quotas, proposed increase in U.S. tariffs on lead and zinc (the Simpson Bill[4]), and the lapse of the bracero agreement a year and a half ago. That will be something we shall have to face and live with while working the matter out.

There are other problems of American interests here, such as the very burdensome taxation of the mining industry, tariffs, export and import controls, quotas and prohibitions, etc. These are matters which can and are being worked out reasonably well in the normal course without causing friction or unpleasantness in the relations between the two countries, although the individuals concerned are at times understandably unhappy about them.

The only other problem, and the one in my opinion which is at the back of allegations of unfriendly relations between the two countries is the desire of PEMEX, the Mexican Government's petroleum monopoly, to get large, long-term loans, without having to show a balance sheet and run an economic, profitable industry. The deficit financing of PEMEX imposed on the Mexican Treasury is wholly concealed from the public. As stated in the attached memorandum, Señor Bermudez, the head of PEMEX, wanted to be the official party's candidate for President of Mexico in the elections of '52 and he is very much a candidate for the 1958 elections. He brought great pressure upon President Truman and other high Government officials from 1948 to 1950, through many individuals including chairmen and members of the Committee of Interstate and Foreign Commerce of the House of Representatives (Mr. Wolventon and subsequently Mr. Crosser), whom he invited to Mexico and entertained lavishly, to get a loan of $470 million, subsequently scaled down to $203 million. Our Government declined to give PEMEX the loan in accordance with its long and consistent policy not to give public loans for petroleum exploration and exploitation considering this a matter more appropriate for private enterprise.

PEMEX did not become reconciled to this decision and its representatives and employees have been persistently and sedulously advocating such a loan. For the reasons given in the attachment I feel it would be most unwise for our Government to accede to this request which besides being unsound and contrary to our long established policy, would strengthen the advocates of nationalization

[4] Reference is to a bill introduced in the House of Representatives in 1954 by Congressman Richard M. Simpson (R.–Pa.) which would have imposed quotas or import taxes on lead, zinc, and petroleum imports. A vote in the House defeated this proposal which was opposed by the administration.

and government control and be a blow to our supporters who favor private enterprise.

On Señor Bermudez' recent trip to New York, his public relations representatives arranged a dinner for him with leaders of American finance and industry. He was chagrined that he was unable to convince them of the soundness of large, long-term, private loans to PEMEX. PEMEX is not likely to get very much more additional private financing, except certain short-term credits for specific objects, until PEMEX is run on a business-like basis.

PEMEX' failure to get long-term loans from the United States has not caused unfriendliness in the relations of the Mexican people as a whole, or of the Mexican Government towards the United States. I understand President Ruiz Cortines recently told Señor Bermudez not to ask for any foreign loans for PEMEX and certainly the Mexican Treasury does not want any loans to PEMEX under the present inability of that organization to produce the funds necessary to service such a loan. The Minister of Finance, since my return here, has told me that he asked the President to restrict PEMEX and other semi-autonomous agencies such as the Federal Power Commission, the railroads, etc., from seeking loans independently of the Treasury or he could not be responsible for the Mexican national credit. President Ruiz Cortines has done so. He has set up a Committee on Investments and all Government agencies are now prohibited from contracting any foreign indebtedness exceeding $100,000 and requiring more than twelve months for repayment without the approval of that Government committee and the Nacional Financiera. The Minister further complained of the tactics of Bermudez both in 1948–1950 and now in attempting to by-pass the Mexican Treasury and Foreign Office and the American Treasury and Department of State and negotiate through personal friends and intermediaries. In other words, the failure of PEMEX to get a loan is not a problem in Mexico disruptive of our relations. On the contrary the attempt of Señor Bermudez to go out of channels to get a loan is contrary to the policy of President Ruiz Cortines and his Finance Minister. Those who are supporting Señor Bermudez for any of a variety of reasons will use every means at their command to obtain their ends, but I ask you to believe, Mr. President, that they are doing it from partisan, personal reasons, that they are not representing the true situation here and that one of their tactics is to stir up groundless anxiety that relations between the United States and Mexico are endangered by PEMEX not getting a loan. I have no hesitancy in asserting that such is not the case.

The attempt of Señor Bermudez to obtain loans against the policy of his Government is not the only case of this sort. The question arose of a visit of one of our aircraft carriers to Acapulco.

Señor Bermudez without going through the Foreign Office, which knew nothing about it, got Ambassador Tello to tell the Department of State that President Ruiz Cortines would welcome such a visit. When I enquired of President Ruiz Cortines when he would like to have this ship come to Acapulco so he could visit it, I found it was not his idea at all. He told me very confidentially and personally he hoped the visit would not be made and, consequently, it was abandoned.

Relations between the United States and Mexico are better than they have been for some years and over the last fifteen or sixteen months have made gratifying advances. In making this statement I am merely making a factual description of the situation as it exists. I am not thereby advocating any negative outlook or suggesting nothing further is to be done by us and that we can sit back complacently. Far from it. There are always opportunities to improve the situation and we should and must avail ourselves of them all.

The Mexicans are a proud people and they cannot be pushed or rushed into anything. They resent anybody trying to outline a program or plan for them, or direct any of their activities. For example, in the field of technical cooperation, we should wait for the Mexican Government (not individuals or agencies) to ask for help in a given situation and meet their desires to the extent we properly can. Such requests should, as heretofore, be largely for technicians and advisers and may include some rather limited financing of dollar expenses. On the basis of cooperating with them at their request we can do much to improve relations and good will, but if we try to dominate and dictate the policies, or what they should do and how they should do it, we will at best accomplish nothing and can very well cause considerable resentment.

Señor Carrillo Flores, the Minister of Finance, sounded out the Export-Import Bank whether it would consider financing some private power companies in Mexico. Under authorization from the Bank and the Department I have informed him the Bank will gladly consider such a request. That is one concrete example of something we can do to be of service. There are others coming up all the time. The Boundary and Water Commission is a cooperative enterprise of great value to the two countries. The joint AFTOSA, or Foot and Mouth Commission, with many frustrations and difficulties to be sure, nevertheless succeeded in a period of under two years in eradicating a new outbreak of that dreadful disease that occurred here in May 1953. The American business men in Mexico are most cooperative and have the friendliest relations with the Mexicans. A group of them has formed a Committee Pro-Mexico which is doing much to stimulate the important tourist trade and to foster general good relations. They also participate in the American-Mexican busi-

ness men's committee sponsored by the U.S. Chamber of Commerce and by important Mexican business and financial groups. The Mexican Federation of Industrial Chambers of Commerce became very interested in a program of increasing productivity. With the aid of Point IV[5] this is being carried out as a Mexican project. It has the enthusiastic support of the Mexicans and indications are that it will eventually be a very successful program.

In other words, we are not taking a negative attitude—we are doing things to be helpful to increase friendly relations and we shall continue to do so and to take advantage of any new opportunities that arise.

The Minister of Finance has just told me that it would be most helpful to him if it could be announced after the World Bank meeting at Istanbul, which both he and Secretary Humphrey will attend, that it was agreed in principle that the Stabilization Agreement for the peso will be renewed upon its expiration December thirty-first, the details thereof to be negotiated in November. Since our government departments concerned are agreed in principle that the Agreement be renewed I am recommending that such an announcement be made as Señor Carrillo Flores requests. Whether the amount of the fund be increased from seventy-five to one hundred million dollars and the agreement be tied in to the present exchange rate of the peso are matters that can be left to the good judgment of Secretary Humphrey.

Incidentally, Mr. Carrillo stated he was making this request because the Mexican public will not believe he is going all the way to Istanbul merely to attend the annual meeting of the Board of the World Bank on which he is the Mexican representative. The public will, he said, expect him to be negotiating on other matters and if no result is announced, will say his trip was a failure. This gives support to what I said to Messrs. Dulles, Hoover, and Holland in Washington regarding a suggested visit of President Ruiz Cortines to Washington that he will be expected to bring back from any such visit something for Mexico in the way of a loan or other benefit. If he does not, his prestige may be impaired and the visit result in more harm than good. I feel the suggestion that the invitation for the visit be put on a purely ceremonial basis might seem rather ungracious to President Ruiz Cortines and result in his not accepting it. That also would not be helpful. Even assuming that a tactful approach could be made to obviate any such feeling on President Ruiz Cortines' part, it would not prevent the Mexican press and others from feeling and stating that something of benefit to Mexico

[5] Reference is to the fourth point of a plan of action outlined by President Harry S. Truman in his inaugural address in Washington on January 20, 1949.

must have been sought and not obtained and thus at best cause embarrassment to him. Furthermore, any such invitation to President Ruiz Cortines would have to be most carefully handled to insure that no slightest intimation regarding it should reach him before it is made to him or those with advance knowledge of it will exploit it to their benefit and seek to take credit for their personal advantage. Therefore, I recommend that while we keep the possibility of such an invitation in mind for serious consideration in case circumstances should be such that a visit could not be misconstrued, it now be kept in abeyance. Incidentally, the Mexican Congress, under the Mexican Constitution, would have to give President Ruiz Cortines permission to visit the United States as it did for his brief visit to American territory at the dedication of the Falcon Dam.

A positive action of benefit to our relations would be the prompt renewal by an exchange of notes of the bracero agreement that expires on December 31. This is mentioned more fully in the annex. The present agreement has been remarkably successful in the year and a half it has been in effect. To try to renegotiate it de novo would present many difficulties and possibly lead to a repetition of the unfortunate situation we had at the end of 1953 and the beginning of 1954. I, therefore, most earnestly recommend, now that our Congress has authorized the continuation of the agreement, that I be instructed to exchange notes with the Foreign Office to bring this about.

The most ticklish problem before us at present is the proposed bi-lateral air transport agreement and, as I said before, President Ruiz Cortines has asked me to take it up with him personally and he is fixing an appointment for me after he delivers his annual message to Congress on September 1st.

I feel, in the light of the above analysis, I am justified in sending you a confident report on relations between the two countries. If I felt otherwise I would be the first to bring it to your attention and to that of Secretary Dulles to try to remedy the situation.

With kindest regards and great respect, I am

Faithfully yours,

Francis White[6]

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[6] Printed from a copy which bears this typed signature.

[Annex]

Political Background

There is to all intents and purposes only one political party in Mexico. The three opposition parties that are permitted to have their names on the ballot carry very little influence and in the new Congress opening September 1 the opposition parties may have as few as 5 to 10 seats out of a total of 162. In the official party are represented all tendencies in the country from the conservative propertied classes, the banks, industry and commerce, through the left-wing doctrinaire element in favor of nationalization of resources and various important basic industries and government control and supervision, to the communist elements, on the extreme left. None of these divergent elements has the remotest immediate prospect of enough strength by itself to control the government, but all have been represented in it. Therefore, the usual clashes in economic policies inherent in all democratic countries take place in Mexico within the official party to a greater extent than between different political parties. This means that President Ruiz Cortines must try to maintain a balance between these often diametrically opposed interests within his own party in order to carry on the government business.

In the electoral campaign of 1952 that brought Señor Ruiz Cortines to the presidency, opposition elements carried on a very virulent and unfair attack on him personally charging he had cooperated with and aided the American naval forces that landed in Veracruz (his home state and residence) in 1914. Cartoons showing him collaborating with the American landing forces were widely distributed through the mails and by hand. One or two were even sent to me anonymously when my appointment as Ambassador to Mexico was announced nearly three months after President Ruiz Cortines had been inaugurated. This campaign had an influence on his outlook in the early stages of his administration. He felt under the necessity of disproving that he has pro-American and working for "Yankee" interests. This caused him to lean backwards in not supporting those who were openly friendly to the United States and undoubtedly influenced him in putting into his Cabinet some men who are known to be hostile to foreign interests in general, Americans and private enterprise in particular. There were bitter attacks on the United States in January and February, 1954. Without going into the details of that matter the attack had its origin in the Foreign Office and our point of view was not permitted to be published. All this despite the fact that the Minister of Foreign Affairs and his Under Secretary both admitted to a number of my Latin American

colleagues they realized the United States was right. Then came the Caracas Conference and Mexico's backing of the Communist government in Guatemala. Then the devaluation of the peso described below and very bitter attacks on the Mexican Government and its policy by all the banking, industrial and commercial elements in Mexico. This caused the President to stop and reconsider whether he had not gone too far in backing the leftist groups and that the true interests of Mexico were not being duly cared for. This concatenation of circumstances, I feel, made it somewhat easier for me at that time to persuade President Ruiz Cortines that the Arbenz government in Guatemala was a communist government and a threat to Mexico. Up to that time he had followed completely the line of Señor Padilla Nervo that there was no communism in Guatemala and no threat to Mexico or the rest of the hemisphere.

At my third conference with President Ruiz Cortines on this subject, he told me that he had instructed the Foreign Office to change its policy with respect to Guatemala.

President Ruiz Cortines

The President told me that he had received conflicting reports about President Ruiz Cortines, some advocating working with him and others maintaining that he is socialistic and that we should have nothing to do with him. I should like to repeat what I said at the time that I feel President Ruiz Cortines is definitely not socialistic and that we must work closely with him. He is our greatest hope because only he can change socialistic and hostile policies of Cabinet Ministers and he has done so. For the reasons given above, inherent in the political situation here, he cannot at this time, nor will any president in Mexico be able for some time, to throw his full support to one side or the other in the economic and political differences of viewpoint to the exclusion of the other. President Ruiz Cortines has a highly developed political instinct. This tempers what he might like to do by what he feels he can safely do. Señor Carrillo Flores told me that President Ruiz Cortines has sometimes twitted him on not being a politician when he has advocated certain lines of action.

President Ruiz Cortines stepped in to try to minimize the hostile campaign regarding the braceros. That was the first step he took on our behalf. The second was the change in Mexico's Guatemalan policy. However, he still expressed the view that there was no danger of communism in Mexico. . . .

I have found President Ruiz Cortines very cooperative and helpful. He has his political problems and we could not expect him to act rapidly on many matters. He himself has told me that in many cases he has to prepare public opinion first and he has taken steps to that end. I feel he is completely sincere in his statements to

me of his desire to work closely with the United States and to have good relations and also in his admiration of President Eisenhower. Not only has he expressed this to me personally, but various persons close to him in his Cabinet, or on his personal staff told me spontaneously of the great admiration which President Ruiz Cortines formed for the President at the Falcon meeting.

In addition to the matters mentioned above, President Ruiz Cortines came out squarely in support of private enterprise in the power industry in the matter of giving the private companies rates that will allow them to make a sufficient return on their investments to attract new capital for needed expansion. Hostile elements are constantly working to upset this and another phase of the matter will come to a show down in the near future. From what the Finance Minister has told me since my return to Mexico, this cannot be settled immediately because the question has become a political issue but he intimated President Ruiz Cortines will resolve it in favor of private enterprise next year. President Ruiz Cortines also supported the Texas Eastern gas contract with PEMEX and directed Secretary Loyo and Señor Sanchez Cuen to cease opposing it. At present the general trend appears somewhat more favorable for private enterprise but not necessarily for large scale foreign investments in private enterprise.

To repeat, the only one who can overrule and has overruled actions of Cabinet officers unfriendly to the United States—as shown in the bracero matter, Guatemela, and the Caracas Conference—and those hostile to private and foreign interests, is the President. I feel it is clearly advantageous for us to continue to cooperate with him and to encourage him to share our point of view. I consider it most fortunate that he and I have established a relationship which permits this cooperation and feel we should do everything possible to strengthen that relationship. May I again emphasize here how much importance President Ruiz Cortines attaches to keeping this relationship unpublicized on account of the reaction it might have on him politically, should it be generally known.

At my last interview with President Ruiz Cortines before my recent trip home I told him that whenever I saw a cloud on the horizon that might grow into undesirable proportions I always wanted to try to take measures to meet the issue before it grew to unmanageable proportions. He said he agreed and asked what the problem was. I outlined to him very briefly the matter of the proposed bi-lateral air transport agreement and told him that I could foresee a difficult situation arising there if we did not compose it fairly rapidly. I told him my instructions to take the matter up had not yet come but that I had been told they would be coming shortly.

President Ruiz Cortines asked me as soon as I get my instructions, which I have now received, to take the matter up with him personally rather than with the Minister of Communications, and that I shall do. I was somewhat concerned lest my instructions might limit me to getting the matter concluded in a relatively short period or else the Civil Aeronautics Board would issue a show cause order against Mexican air lines. As I explained to Secretary Dulles and Under Secretary Hoover, I would very much dislike to be put in such a position. My relations with President Ruiz Cortines are such that I cannot and should not deal with him on the basis of giving a time limit which would make him feel that he was discussing the matter with me under duress. I am happy that both Mr. Dulles and Mr. Hoover fully agreed with this point of view and I am being given more latitude in the matter.

Other Personalities

The most outstanding member of the Cabinet who has worked sedulously on behalf of private enterprise and proper cooperation with the United States is the Minister of Finance, Doctor Antonio Carrillo Flores. There have been times when he has had to fight almost single-handed for what he considers sound monetary and economic policies and against unsound policies which he considers will threaten the economic stability and the prosperity of Mexico. Such support as he has received in the Cabinet has been limited largely to Señor Angel Carvajal, Minister of the Interior, the ranking member of the Cabinet and a very close friend of President Ruiz Cortines. The Minister of Education, Señor José Angel Ceniceros, and the Minister of Public Health, Doctor Ignacio Morones Prieto, are men of sound ideas and friendly to private enterprise but do not carry any particular weight outside their own ministries. Mr. Ceniceros has been particularly active in his field in eliminating as many communists as possible from the teaching profession in general and from his ministry. Señor Rodrigo Gomez, Director General of the Bank of Mexico and Señor Martinez Ostos, the Sub-Director of Nacional Financiera, are also strong supporters of private enterprise and have been very friendly toward American interests in Mexico.

On the other side the outstanding anti-American and leftist is the Minister for Foreign Affairs, Señor Ruiz Padilla Nervo. He has in his ministry a number of officials with leftist sympathies and two or three who are alleged to be communists. Two have Russian wives.

The leader of the socialist group advocating nationalization of industry, keeping out foreign competition and generally thwarting private business and initiative, is the Minister of Commerce, Lic. Gilberto Loyo.

The Minister of Hydraulic Resources, Señor Eduardo Chavez, is also very definitely of the same view as Señor Loyo. The Minister of Communications and Public Works, Señor Carlos Lazo, has followed this same line apparently more from expediency than from conviction.

Of those occupying positions below Cabinet rank the head of the Federal Power Commission, Señor Ramirez Ulloa, is belligerently hostile to foreign private power companies in Mexico and in favor of government ownership and operation.

Señor Amorós, the head of the National Railways, is in favor of Government ownership and operation of the railways. However, he is striving to improve their operations. On taking charge of the railroads he was confronted with about 30,000 super-numerary employees and such lax management and operational control that some 40% of their diesel locomotives are in the shop unusable. The shops are not equipped to keep up with the current repairs to say nothing of this backlog of equipment worth many million dollars that is out of service for months on end. His principal difficulty is labor relations. He has succeeded in getting a new labor contract which permits not filling vacancies as they occur. If the Railroad Administration can hold the line on this it may reduce its excess labor in ten years or more to manageable proportions. This will require much political courage, however.

Señor Bermudez is head of the Mexican Government's petroleum monopoly known as PEMEX. That industry also is not run on economic business lines. It is used to pay off political debts of the party by appointing needless employees to sinecures where they do no work but draw salaries. Furthermore, its petroleum products are not marketed economically but are sold at lower than market prices, by way of subventions to the National Railways in the case of fuel oil, and to taxi-cab drivers, trucking companies, and other privileged groups as regards gasoline. The result is that this industry which should be one of the Government's greatest assets is at present a liability to the Treasury. Graft and corruption is also reliably reported by many as prevalent in that organization.

PEMEX does not publish a balance sheet or disclose its true financial position, but I know from the Minister of Finance that the Mexican treasury has to make up PEMEX's deficits. This deficit financing is completely concealed from the public.

Señor Bermudez is a man of great personal charm and ambition. He hoped that he would be nominated the official party's candidate for the presidency in 1952 and was chagrined when this did not occur. He still hopes to get the nomination in 1958. From 1948 to 1950 he was very active in trying to get a loan from the United States Government for PEMEX and it was stated that he felt that

getting such a loan would so increase his prestige that his chances for the presidential nomination would correspondingly be advanced. Despite the greatest efforts to get such a loan he did not succeed, but in 1950 the Export-Import Bank did open a line of credit for the Mexican Government for $150,000,000. It was said at the time that while none of these dollars could be used for PEMEX the loan would, nevertheless, free pesos which the Government would otherwise be obligated to use elsewhere and hence, make pesos available for PEMEX if the Government so desired. Señor Bermudez maintains that he never got any of these more or less counterpart pesos for PEMEX and is all the more irked for that reason.

Some months ago he openly stated to a number of people that he was about to get a loan of three hundred to four hundred million dollars from the United States. He visited New York where public relations representatives of his gave a large dinner in his honor. Many of the most important business and banking interests were represented. One who was present told me that Señor Bermudez put on an excellent show and he described him as being an excellent actor. However, he seems to have failed to convince these American business leaders of the soundness of his project and, except for certain short-term credits, PEMEX was unable to get the additional funds desired from private sources. Señor Bermudez and his representatives have alleged that with from three to four hundred million dollars PEMEX could be made a paying organization. The cold facts are that until the Government lets PEMEX put itself on a business-like basis any additional funds granted to it would be more money down the drain and any seeming prosperity caused by this shot in the arm would be short-lived indeed and then not only PEMEX but the Mexican Government would be in a vastly inferior economic position. PEMEX, until taken out of politics and ably and economically managed, will not of itself generate the funds with which to service such a loan. The loan would then have to be serviced, as are PEMEX's present deficits, from the National Treasury. The borrowing capacity of the Mexican Government for productive loans for other development projects would be reduced by the amount of the loan to PEMEX which would then have to be serviced by the Federal Government. The Government would be saddled with the service of an additional debt for which it received no practical, productive benefits and this would seriously effect the Treasury position and the stability of the peso. This is the position taken by the Mexican Treasury Department.

The man in the Government most anxious to have PEMEX a going concern is the Minister of Finance who wishes the Treasury relieved of this present burden. While he has discussed the matter with me on his own initiative on several occasions, he has never

advocated a loan for PEMEX as a way out as he knows what, under present conditions, the result would be to the Treasury's position.

To sum the matter up, graft and corruption in PEMEX are well known. PEMEX would like to get money from us but that is all; its head and some of its directors are not known for their friendly feelings to the United States.

Résumé of Economic Situation During Ruiz Cortines Administration

When the Ruiz Cortines Administration took over the reins of government in December 1952 it inherited from the previous administration a virtually empty Treasury, several large uncompleted public works projects, and many contracts for new public works, a number of which were open to question. The Government had no alternative but to curtail or stop unnecessary or uneconomic public works projects. Since Government spending in Mexico normally forms a large proportion of total national expenditures, the impact of this policy on the economy of the country was serious. In addition such factors as the severe drought affecting much of the Northern farm area, the lower prices for minerals and farm products, and the closing of the U.S. border to the exports of Mexican cattle because of foot and mouth disease, all resulted in a decline in business activity which caused a business depression of relatively serious proportions by mid 1953. Although there was a slight revival in business during the last quarter of 1953 due to holiday spending and increased government expenditures, this did not dispel the atmosphere of doubt and concern that existed among business men, due in part to uncertainty regarding the Government's attitude towards private enterprise. Consequently, private expenditures were curtailed and bank deposits increased.

Shortly after the beginning of 1954 a modest flight of capital started, but it reached such serious proportions during the first half of April that the Government feared that its "free" gold and foreign exchange reserves would soon be exhausted if the capital flight continued (at mid April total gold and foreign exchange reserves totaled only $201 million of which about $150 million was needed to meet the legal reserve requirements for currency and bills in circulation). Rather than exhaust existing foreign exchange reserves and then have to call on the U.S. Stabilization Fund and the International Monetary Fund for backing the peso when ultimate devaluation might be inevitable, the decision was made to devalue the peso as of April 19, 1954. The primary considerations which led to this decision were: the steady deterioration in Mexico's balance of payments since 1951, the steady lowering of her gold and foreign exchange reserves, the unusually large quantity of liquid funds in the hands of the

public, the unfavorable long term outlook as regards the terms of trade, the "run" on the peso in early April 1954 which threatened to exhaust Mexico's "free" reserves of about $50 million, and the anticipated budget deficit of some $70 to $90 million. The abrupt action of the Government in devaluing the peso was such a shock to the country that the devaluation, instead of terminating the capital flight, resulted in an unprecedented flight from the peso, and the gold and foreign exchange reserves hit a new low of $105 million in July 1954.

Mexico, however, is noted for the resiliency with which it responds to economic crises and the one in 1954 was no exception. Following a few months of confusion and uncertainty business adjusted to the new parity rate. An excellent agricultural season late in 1954, and a more friendly government attitude towards business, helped to revive business activity. By the end of 1954 commerce, industry and agriculture had improved markedly. The mining industry, however, remained somewhat static. This improvement carried over into 1955, and a record tourist season, plus an inflow of capital, resulted in an increase, rather than the usual seasonal decrease, in the gold and foreign exchange reserves of the country which as of late August have increased to slightly over 300 million dollars compared to the low point in July 1954 ($105 million). The outlook for commerce, industry and agriculture for the remainder of the year is bright, tourism is expected to continue at a high level, and labor is relatively stable.

Only in those industries where Government control or policies inhibit growth is difficulty being experienced. These include the mining industry where excessive taxation is a factor; the nationalized petroleum industry, due to the fact that PEMEX's prices have not been increased sufficiently to offset losses due to devaluation, to continued subsidies to other government entities and to management and labor problems; the national railways, due to low rates, management and labor problems; and the electric power industry, due to previously existing low rates.

The Bracero Agreement

The Bracero Agreement expires the 31st of December of this year. The agreement that was finally concluded on March 10, 1954, with one or two amendments by subsequent exchanges of notes, has proved eminently satisfactory. There are always certain modifications that can be made or discussed but that can be done within the framework of the present agreement, or any extension of it. The Congress has authorized the extension of the agreement for an additional three and a half years and I feel very definitely that our best interests indicate we should very promptly, by exchange of

notes, extend the present agreement and not try to renegotiate a whole new agreement merely to get in one or two points that might be considered an improvement. If there is anything we definitely feel we need, that particular point can be negotiated with the Mexicans, but to throw the whole thing open to new negotiations now, including many points which it took us so long and with so much chagrin to achieve a year and a half ago, would, I think, be most undesirable.

I understand there are some differences of view between the Department of Labor and the Immigration Service on matters connected with the agreement. Those are domestic matters which should be settled in Washington and not in negotiations with the Mexicans.

I repeat that it seems to me wisdom counsels our extending the agreement as it is as quickly as possible and then taking up any specific points for amendment as they arise, or as the Labor Department and the Immigration Service arrive at an accord among themselves as to what they feel the objective should be on a given point.

The Communist Situation

The orthodox Communist Party of Mexico is numerically weak, having an estimated 5,000 active members and, not having qualified for registration cannot legally run candidates in elections. The Popular Party, led by the avowed Marxist Vicente Lombardo Toledano, while denying it is Communist, serves the interests of international Communism in Mexico. It has an estimated 100,000 members including the newly-enfranchised women, is an officially registered political party, and has a miniscule representation in the National Chamber of Deputies. Thus in a country of almost 30,000,000 inhabitants, Communist political strength on the face of it appears numerically negligible, a point constantly being stressed by Government officials, the press, and others. On September 1, 1954, in his annual Report to the Nation, President Ruiz Cortines went on record that Mexico rejected international Communism, and during the past year the authorities have been quick to suppress Communist-inspired attempts at public disorder in the Capital and elsewhere, thus providing the background for official spokesmen to announce the country is anti-Communist. A favorite cliché here is: "A country so strongly Catholic as Mexico could never go Communist."

However, the Communists and their allies in Mexico have considerably more influence than their numerical weakness indicates, as the liberal tradition of the Mexican Revolution has permitted many kinds of political radicalism to flourish over the years. President Ruiz Cortines is believed to have become aware of a potential internal Communist threat to Mexico at the time the Arbenz regime in Guatemala was unmasked and overthrown last year. The liberal

tradition alluded to above has produced in Government officials a complacency and laissez-faire attitude toward Communism which is at times exasperating and even alarming. Mexican citizens are freely granted passports to travel to various Communist gatherings behind the Iron Curtain (Lombardo Toledano travels on a diplomatic passport), and Communist influence is appreciable among educational workers and in certain sectors of the labor movement, particularly among electrical and railroad workers. The Soviet Union is represented here by an Embassy, and Poland and Czechoslovakia by Legations (Argentina and Uruguay are the only other Latin American countries where Soviet diplomatic missions exist). The Soviet Embassy has a staff of at least sixty working persons including more Armed Services Attachés than our own Embassy. These Russians are believed to be engaged chiefly in intelligence work and are very active in so-called cultural activities and have established several Russian-Mexican "Cultural Exchange Institutes" in the Capital and in provincial centers. A number of prominent Mexican artists and cultural figures are Communist Party members. Thus the Communists and Popular Party members and sympathizers, though relatively few in number, are able to exercise, through their connections and on account of the lack of awareness by Mexican officials of the Communist danger, greater influence than their strength would warrant.

With virtually complete freedom of the press the Communists are able to make themselves heard. The Mexican Communist Party publishes a weekly newspaper (efforts to raise funds to make it a daily have consistently failed) and the Popular Party publishes a daily. Through these and other outlets, including paid space taken from time to time in the regular newspapers of large circulation, they keep up a steady and skillfully directed campaign against the United States, most frequently utilizing causes which find a responsive chord among many Mexicans irrespective of political outlook. These taboos include, but are not limited to: the possibility of betrayal of the national patrimony—notably petroleum and, more recently, supposed uranium deposits—to foreign interests; the invasion of Mexican markets by United States firms, especially chain stores; the bracero question; the electric power question; land reform and the division of the remaining large tracts, some of which are owned by United States interests; the foreign mining companies; military cooperation for continental defense; and the general question of the economic "invasion" of Mexico. All these matters are approached by many Mexicans with an emotional rather than realistic outlook. Consequently, through playing upon issues which put the Government on the defensive the Communists are able to create,

and keep alive, a certain atmosphere or impression that relations between the United States and Mexico are strained.

President Ruiz Cortines, since my talks with him and especially since the irrefutable evidence of the Guatemalan case, has a greater realization of the dangers. However, he like many others, is likely to assume an attitude of complacency dismissing, or at least minimizing, the issue as a relatively unimportant manifestation of a local condition rather than an international conspiracy implanted and directed from abroad. Nevertheless, despite the outlook on my arrival here which was far from reassuring, there are definitely hopeful signs and I propose to continue at each suitable opportunity to encourage President Ruiz Cortines to take measures against Communism which will more clearly define the Government's position.

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214. Editorial Note

Major hurricanes struck the Yucatán Peninsula and Tampico on September 20 and 29. The resultant floods created an emergency which prompted the Mexican Government to request assistance from the United States. In a memorandum to the President, dated October 19, Secretary Dulles reported on the relief efforts made by the Navy, the other Services, the Red Cross, and private organizations. The Secretary wrote in part: "American aid to Mexico in her great tragedy coupled with Mexican gratitude therefor may well have an important bearing on the future course of our relations, for almost as satisfying as the rescue operation itself has been the Mexican response. The recognition and the outpouring of gratitude have been little short of phenomenal. It is safe to say that at no period in the history of the United States-Mexican relations has the United States been held in such high regard by both the Mexican Government and people." (Department of State, Holland Files: Lot 57 D 295, Mexico)

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215. Editorial Note

The Migratory Labor agreement between Mexico and the United States, which entered into force on August 11, 1951, was extended

to December 31, 1956, by exchange of notes between Mexican Foreign Minister Padilla Nervo and Ambassador White on December 23 in Mexico City. For text of the Migratory Labor agreement of August 11, 1951, see *United States Treaties and Other International Agreements* (UST) 1951, volume 2 (part 2), page 1940. For text of the notes extending the agreement, see 6 UST (pt. 5) 6058. Documentation on the subject is in Department of State, Central File 811.06(M).

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216. Memorandum From J. Paul Barringer of the Office of Transport and Communications to the Deputy Under Secretary of State for Economic Affairs (Prochnow)[1]

Washington, January 25, 1956.

SUBJECT

Mexican Aviation Negotiations—Meeting with the Under Secretary January 25 to discuss limited information that might be given to Congress concerning this subject

Discussion

1. Pursuant to your telephone request, TRC has considered this matter and discussed it with ARA/MID.

2. At the express request of the President, all information concerning these negotiations has been classified on a "need to know basis." As far as is known, Departmental officers and officials of the Civil Aeronautics Board have meticulously adhered to the President's orders.

3. It is inevitable that, with Congress again in session and in an election year, considerable pressure will be leveled at the White House, the Department and the CAB by sectional interests such as the New Orleans area and Southern California in an attempt to ascertain the present status of the negotiations. TRC and MID agree that disclosure of any but the most general information and the possible resultant publicity could only damage the objectives of the US in these negotiations.

4. On Monday, January 16, CAB Chairman Rizley met with the Under Secretary, Mr. Kalijarvi and Mr. Barringer, to ascertain the appropriate line to take in answer to Congressional inquiries. The Under Secretary agreed that discussion for the public record would

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[1] Source: Department of State, Central Files, 611.1294/1–2556. Confidential.

be respectfully avoided. Limited general information only should be given at "executive sessions," approximately as follows: "Appropriate agencies of the Executive Branch are working constantly and assiduously to bring this matter to a successful solution; negotiations with a friendly neighboring country are now in a very delicate stage which might be prejudiced by public attention; and the US was adhering in the negotiations to the basic principles underlying all of its international air transport agreements."

5. For your information there is annexed a brief résumé of the recent history of these negotiations.

Conclusion

In view of the present state of the negotiations, the release of any public information which might give rise to press comment would inevitably be counter-productive to the US objectives in the negotiations. The most desirable course of action would seem to be to avoid all questions on the basis of the President's classification of the matter and to await the Mexican reaction. Should this reaction be negative or should a period of more than two months elapse without answer, the CAB should be free to issue the Show Cause order.[2]

Recommendation

That you suggest to the Under Secretary that Congressional, industry and public inquiries should be answered only in accordance with the line which he suggested to Mr. Rizley on January 16 as set forth in paragraph 4.

[Enclosure]

Brief Résumé of Recent History of Mexican Aviation Negotiations

A. In May 1955 the White House, the Department and the Civil Aeronautics Board agreed upon a course of action:

1) The American Ambassador to Mexico was to reject a previous Mexican offer for a route exchange which again called for an exclusive Mexican right on the Los Angeles-Mexico City route.

2) A counter-offer was to be made to the Mexican Government which incorporated the basic US principle of equal competitive opportunity on all major routes between the two countries.

[2] Reference is to a proposal that the CAB initiate legal action which could have culminated in the termination of operations in the United States by Compañía Mexicana de Aviación.

3) If Mexico refused the counter-offer, the CAB would issue an order requiring the Mexican carrier, CMA, to show cause why it should not be required to terminate its monopoly service to Los Angeles.

B. Unavoidable delays prevented delivery of the US counter-offer to Mexico until September.

C. In October the Mexican Minister of Transport[3] gave the American Ambassador an informal memorandum containing another Mexican counter-proposal. This proposal involved an equal division of the service to be offered on the major routes, thereby guaranteeing the Mexican carriers a share of the market. This new Mexican proposal was submitted to the CAB.

D. On November 30 the Board wrote to the Department and suggested an application of a formula to the amount of service to be offered by both countries on the routes to be mutually flown.[4] This suggestion involved a basic change in US policy.

E. On January 5 the Board revised the position taken in its letter of November 30 and submitted a final route offer based upon a standard Bermuda type agreement.

F. The American Ambassador was to present this proposal on Wednesday, January 18, but it is understood that the President of Mexico cancelled the appointment and that the counter-proposal has as yet not been made.

[3] Walter C. Buchanan, Acting Minister of Communications and Public Works.
[4] Not printed. (Department of State, Central Files, 611.1294/11–3055)

217. Memorandum for the Files, by the Ambassador in Mexico (White)[1]

Mexico City, February 21, 1956.

SUBJECT

Call on President Ruiz Cortines, February 20, 1956

I called on President Ruiz Cortines yesterday evening. He at once mentioned the air transport agreement and said that from his talks with Buchanan we seem to be getting closer. He also said he had suggested to Mr. Olmos that I talk with Buchanan.

[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Secret.

I told the President I got that message last Friday and Mr. Buchanan being out of town over the weekend, I had seen him immediately before calling on the President. I said we were closer but there is still the matter of principle dividing us as regards limitations of traffic.

The President said what he is interested in is to do nothing that will make it impossible for Mexico to compete with us on an equal basis once they have the planes and Mexican companies with the financial resources to do so. He said he recognized that Mexico is not in such a position now and will not be for many years, but he is looking to the long term, of say, fifty years hence.

I told the President that I fully sympathized with that aspiration and we had done our best to meet it in the draft I had given him on February 1. I said that it seemed to us that in the meantime it was short-sighted to have an artificial limitation and keep tourists from coming into Mexico in the numbers they otherwise would if there were sufficient flights. Let Mexico bring in what it can but not stop American companies from bringing in more tourists and there is full provision for future consultation as the situation changes.

The President said that his two preoccupations are, first, to see that they do nothing to preclude Mexico in the future from having her fair share of the traffic, and, secondly, to settle as promptly as possible this matter which has been dragging on for ten years.

I told the President that that was my desire also and that I had asked Mr. Buchanan to give me in writing the wording which he would wish to put into a bilateral convention to meet this situation. The latter had said that he required authorization of the President to do so. The President immediately picked up his telephone, called his secretary and asked him to remind him this morning to speak to Buchanan on the matter. The President said he would do so before leaving town tomorrow to be gone some five days.

I then discussed with the President the Department's 1286 of February 17.[2] He stated that he is perfectly happy to have the tripartite meeting take place at White Sulphur Springs, West Virginia, March 26–March 28, and he was, apparently, in full agreement with the constitution of the Mexican group. I emphasized to him that, of course, if he wanted to bring any others that it would be perfectly all right. As to Mexican secret service agents accompanying him he said that he would bring none and then jokingly said that he would consider me his security agent.

President Ruiz Cortines said that, unfortunately, he has no plane capable of making the trip and would be very pleased indeed if an American plane could be sent to Mexico City for him. He said

[2] Not printed. (*Ibid.*, Central Files, 396.1–WH/2–1756)

he had no objection whatsoever to the Prime Minister[3] flying from Washington with President Eisenhower and then asked if I would discuss details with Mr. Padilla Nervo to clear up the matter. I told the President I would discuss it with Mr. Padilla Nervo today.

I then told President Ruiz Cortines that on Friday I had told Mr. Padilla Nervo that as the result of my last conversation with the President and Mr. Padilla Nervo instructions were sent out last week to all American Consulates in Mexico to require written evidence of employment in the United States before granting visas.

The President was extremely gratified by this and expressed his appreciation and said he thought it would have a most beneficial effect.

I then told the President that as stated in my last talk with him the attorney for the Sabalo claimants had been in Cuernavaca. He had called on me twice and had come up with what I thought was perhaps the best solution of the Sabalo claim. All the shares of stock in the Sabalo Company are held by the claimants and the easiest thing would be to sell these shares to the Mexican Government. The Mexican Government would then own the company and the claim and the purchase could be made through the Treasury, the Bank of Mexico, and the Nacional Financiera. This would bring up no question whatsoever of the court decision.

I said that I had made this suggestion to Mr. Padilla Nervo on Friday and the latter had felt that this offered perhaps the best way out. He had inquired regarding the date of the shares and after talking with Mr. Stoddard Stevens I had told him Friday night at the Austrian Legation that the company was formed in 1931 and Mr. Stevens was sure that the shares are not dated later than 1933, well before the Supreme Court decision. I said that Mr. Stevens left for New York on Saturday and had promised me that he would get the shares out of the safe deposit box, have them photostated and send them to me, and so soon as I receive them I will give them to Mr. Padilla Nervo.

The President seemed to like this idea and thought we were approaching a means of settling the matter.

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[3] Prime Minister Louis S. St. Laurent of Canada.

218. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, February 29, 1956.

SUBJECT

Negotiations Regarding Mexican Aviation Agreement

Late yesterday Ambassador White telephoned and said that the Department's Special Aviation Counselor, Mr. Dana Latham, had come to Mexico and conferred with him on Monday, February 27. Mr. Latham transmitted an instruction that the Ambassador serve an ultimatum on the Mexican government that unless immediate progress were made in our aviation negotiations the CAB would institute proceedings to cancel the license of Compañía de Aviación to operate in the United States. The Ambassador declined to do so, saying that even if such instructions were transmitted to him by official channels, he would, before complying with them, respectfully submit to the Department his reasons for considering them unwise.

The Ambassador was speaking in rather guarded terms, and it is possible that the foregoing may not reflect with complete accuracy what occurred. If it does, however, I feel that the Ambassador has saved us from a mistake.

It was my understanding that Mr. Latham went to Mexico to consult with the Ambassador regarding the state of our negotiations. I would have recommended against any instruction that the Ambassador submit any ultimatum to the Mexicans in the present state of negotiations.

These negotiations have been slow. There has been much needless delay, more of it attributable to the United States in recent months than to Mexico. Our last proposal from the Mexicans was received on October 18. It was not until January 31 that our counter-proposal was submitted to them. The Mexican Minister of Communication gave Ambassador White a copy of the memorandum that he was delivering to the President commenting on our counter-proposal. It leaves in dispute only one major issue, that of regulation of traffic. The Ambassador has had one rather constructive conference with the President since that time and expects to have another within the next few days. He has cabled for certain guidance for use in those discussions. It has been requested of the CAB, but nothing has been received for transmission to the Ambassador.

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[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico Aviation Agreement. Confidential; Eyes Only. Also addressed to the Under Secretary of State.

It is my judgment that an ultimatum to the Mexicans just at this time would prejudice rather than further our negotiations.

Recommendation:

There may be aspects of this problem of which I am unaware and which would make my opinion inaccurate. Since it appears that instructions may have been given to the Ambassador which are inconsistent with my understanding of how this matter is being handled, I suggest that we meet to decide on a coordinated course of action.[2]

[2] In a memorandum to Acting Secretary Hoover, dated March 6, Assistant Secretary Holland wrote: "On March 1 Ambassador White spoke with Mexican Minister of Finance Carrillo Flores re the aviation agreement matter and told him among other things that political pressure is building up urging the Civil Aeronautics Board to issue a show cause order against 'the two Mexican airlines operating to the United States.' He went on to say the Civil Aeronautics Board is an independent body and it can and does take action independently of the Department and its wishes." (*Ibid.*)

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219. Memorandum for the Files, by the Ambassador in Mexico (White)[1]

Mexico City, March 22, 1956.

SUBJECT

Call on President Ruiz Cortines, March 21, 1956

I called on President Ruiz Cortines at six o'clock yesterday evening and was with him for about an hour and a quarter. After a few preliminary pleasantries, I took up with him the matter of the air navigation agreement.

The President at once said that he understood from Mr. Buchanan that we had practically arrived at an agreement and Buchanan seemed to be very happy over the outcome. I told the President that at my last talk with Mr. Buchanan on March 13 the latter had practically terminated the negotiations. He had told me that he saw no basis for an agreement and that there was nothing further to discuss. I asked if that meant the end of the negotiations and Mr.

[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexican Aviation Agreement. Secret.

Buchanan said it did so far as he was concerned, but, of course, the President had the last word and the matter was, therefore, in his hands. I told the President that that is the way I preferred it because Mr. Buchanan has been obstructing the matter for a number of years. As he knows we have gotten nowhere; it was going on to eleven years now and that every time we make a concession, and we have made many, Buchanan accepts it and then brings up three or four other points. I said that most of these obstructive tactics consist of putting up straw men to be knocked down later.

I told the President that in trying to meet the problem that he had told me he was most interested in, namely, seeing to it that any aviation agreement does not close the door on Mexico being able to operate on a complete basis of reciprocity with us at a later date should Mexican airlines not be able to avail themselves of certain of the routes granted to them, and although the Department of State and the CAB, as well as myself, felt that Articles 3, 8 and 9 of the agreement we were proposing covered this matter most amply, I had none-the-less requested Washington to authorize the insertion of language which would make this clear beyond peradventure of doubt.

I said that I had received this authorization and I handed him the Spanish text of the standard form of U.S. air transport agreements and then handed him a memorandum covering the insertion after the word, "inaugurado" in the first line of Article 3 and also of the new final sentence to be added to Article 2.

The President read both of these and the provisions of Articles 3, 8 and 9 and seemed pleased at the new wording. I told him that Mr. Buchanan had agreed with me on March 13 that the old wording of Article 3 covered the President's point. I had not shown him the new wording as it had come in after my last talk with Mr. Buchanan.

The President asked if this draft which I had given him met all Buchanan's points. I replied that Buchanan was still insisting that all flights south from Mexico City of American air carriers land in Guatemala and that they could not make direct flights overflying Guatemala to other points in Central America. Also, he is insisting on a limitation on a number of flights on all routes from the United States to Mexico City. I said that we felt that this was quite unreasonable and that it was like asking Mexico if it didn't produce motor cars to go back to horse-drawn vehicles.

I then told the President quite frankly that Buchanan had been a stumbling block for a long time. I said that Buchanan had stated, among other things, that all the concessions that have been made have been on the Mexican side. That this is just not borne out by the facts. The facts are that we have made countless concessions

over the years, each one of which has been accepted by the Mexicans and then they have gone on to make further demands and to raise fictitious issues. I said I would not go into the history of the matter over the last ten years, except to mention again that when we permitted CMA in 1947 unlimited flights between Mexico City and Los Angeles it was on the understanding that that would lead to a bilateral agreement and so far it hasn't and, similarly, in 1951 when we permitted Aerovias Guest to fly from Mexico City to Miami we were given the same assurance, but we still have no bilateral agreement.

I said that Buchanan had tried these tactics again several times to discuss only reciprocal routes to New York putting off the bilateral agreement again and he had even done so in my last talk with him on March 13 when I had to tell him again very positively that in view of the experience we have had with them on two previous occasions that CAB would not permit any further flights into the United States outside of a bilateral agreement.

I said I would simply review a few instances since I have been handling the matter.

Mexico first stood out for an exclusive route to Los Angeles despite previous promises that they would share this and other routes with us. When they had abandoned this request for an exclusive route they had then wanted a limitation of traffic. This would not help the progress of Mexico—it would be trying to turn the wheels of progress back.

I said that Mr. Lazo on January 25, 1955, had sent me a written suggestion giving us an exclusive route to Chicago and within a fortnight or so, Ambassador Tello had made formal application to the Department of State and the CAB for a route Mexico City to Chicago of the Aerovias Guest. When I asked Mr. Lazo if they were scrapping their January 25 proposal and what other changes there were, he advised me that he knew nothing of Tello's action; that he had not asked him to make the application and if the application was not withdrawn he could assure me it would not be pressed. Nevertheless, the Mexican authorities have continued to press for that route for a Mexican carrier and we have conceded it to them. This is another major concession made by us which Buchanan overlooks. After we had conceded it to the Mexicans, Buchanan then asked that the Mexican carrier fly direct between Mexico City and Chicago, but that the American carrier be obliged to stop in Dallas. This would clearly indicate the obstructive tactics that he was putting in.

I said the Pan American Airlines had pioneered and developed the routes to Central America and now Buchanan wants to exclude

them from flying direct from Mexico City anywhere in Central America except to Guatemala.

I said that Buchanan had told us that a route from Mexico City to New Orleans was of no interest to Mexico because of the low volume of traffic and that that route could be developed only by an aggressive American company. Nevertheless, he had asked and insisted on a route to New Orleans for a Mexican carrier and we had granted it.

I stated that on October 17 last Lazo and Buchanan both agreed in principle with everything in our proposal except not limiting flights and forcing a stop in Guatemala and on October 18 we received a memorandum to that effect. Despite this, on January 17 of this year, Buchanan had submitted a memorandum again asking for exclusive routes for Mexican carriers.

I said that also Pan American had pioneered the route from Miami to Havana to Merida and Buchanan had made an agreement with the Cubans reserving Havana–Merida traffic to Cuban and Mexican carriers. I said I felt sure the President would agree with me that making an arrangement with a third country to interfere with a route that we had was not straight-forward tactics and we could have lodged a very serious protest, but again we had accepted to delete the Havana–Merida traffic in the route from Miami to Merida, to show our desire to be helpful to the Mexicans and this was another very great concession which otherwise could have developed into a very unpleasant situation for Mr. Buchanan but which he has now completely forgotten.

I referred the President to Buchanan's memorandum to him dated February 15 which stated that we had given up on the Los Angeles–Mexico City direct route for an American carrier any "and beyond" rights. This is true and is another concession we have made, but Buchanan in the next paragraph of his memorandum stated again that Mexico wants to limit our Houston–Mexico City and beyond to traffic to Guatemala alone. The memorandum also talks about limiting flights from Mexico to South America, but he had told me on March 13 that he had no interest in South America, only Central America. On this I have merely his verbal statement.

I said I could go on and amplify this even further, but I did not wish to abuse his time and patience and I thought I had given him enough information to show why we have not been able to have a bilateral air navigation agreement with Mexico on the tactics he is following. I emphasized to him that the beyond rights which we have offered Mexico from either New York or Miami are vastly more important from the point of view of traffic generation than are beyond rights from Mexico City to Central and South America. This is the only beyond rights that we are granted from Mexico City. I

said we have two from Merida but that Buchanan had agreed with me that, of course, there is no traffic in Merida, that that is worthless from money making point of view. On the other hand, we have opened all Europe to them. We have given them equal rights to the four largest traffic generating centers in the United States and while we could perfectly well have limited their Mexico City to Chicago to that city alone, we had, nevertheless, agreed to let them continue on to Canada so that we have given them far more than they gave us. There is no reason for him to stick out on his insistence that all flights out from Mexico City must land first in Guatemala and his insistence on limiting traffic is contrary to the best interests of Mexico in bringing in more tourists and stimulating the industry and is just like going back to the horse and buggy days.

The President said that I had very well documented the matter and that he would discuss the problem with Buchanan this morning and see whether between today and tomorrow we cannot come to some agreement in principle.

I told him that that was my great desire and I hoped that we could do so.

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220. Editorial Note

A meeting of the heads of government of Canada, Mexico, and the United States was held at White Sulphur Springs, West Virginia, March 26–28. Assistant Secretary Holland proposed the idea for such a meeting to Secretary Dulles in August 1955. In a letter to the President dated August 15, 1955, the Secretary explained Holland's idea in part as follows: "The idea is that you and St. Laurent might be willing to go to Mexico City for a couple of days to discuss with President Ruiz Cortines problems of continental interest. Probably if such a meeting were held, it would be useful to end up with establishing some sort of a three-nation board which would meet periodically on the basis of the same theme." (Eisenhower Library, Whitman File, Dulles–Herter Series)

In a memorandum to Livingston Merchant, Assistant Secretary of State for European Affairs, dated August 19, 1955, Holland elaborated on his proposal for a tripartite meeting. (Department of State, Central Files, 611.12/8–1955) Copies of this memorandum were transmitted to the Ambassadors in Mexico and Canada for their comments. In a letter to Merchant dated August 26, Ambassa-

dor R. Douglas Stuart expressed his reservations about the conference idea. He wrote in part, "In final analysis, it is my judgment that the Latin American countries are not nearly as dependable as Canada which I believe is our closest and most dependable ally." (*Ibid.*, 611.12/9–2355) In a letter to Holland dated August 25, Ambassador White also voiced doubts, stating, "I agree with Mr. Merchant that it is necessary that we think through very carefully in advance what machinery, what results, and what possible changes [in] the United States commercial and foreign economic policy we desire to achieve as a result of the meeting. I am inclined to feel that the result of such a study will be to decide against the meeting." (*Ibid.*)

In a memorandum to Secretary Dulles dated September 23, 1955, Assistant Secretaries Holland and Merchant proposed that President Eisenhower, President Ruiz Cortines, and Prime Minister St. Laurent hold a joint meeting at the capital of one of the three countries. Holland and Merchant expressed the preference that Eisenhower be the host of such a gathering. Dulles initialed his approval of the recommendation that he raise this proposal during a conference with St. Laurent in Ottawa. (*Ibid.*) Dulles informed Holland in a memorandum dated October 14, that "the Canadian Ambassador tells me that he has a message from his Premier that he approves the idea of a 'continental' meeting between the Heads of Government and Foreign Ministers of Canada, Mexico, and the United States." (*Ibid.*, 611.12/10–1455)

In a memorandum to Holland, Merchant, and Deputy Under Secretary Robert Murphy dated December 22, 1955, Dulles wrote that the President had agreed to setting the end of March 1956 as the time for the proposed heads of government meeting. (*Ibid.*, 712.11/12–2255) In a memorandum to the Secretary dated January 19, 1956, Holland wrote that he had been informed by Ambassador White that the President and Foreign Minister of Mexico agreed to holding the meeting on March 26–30. Dulles initialed his approval of Holland's recommendation that these dates be cleared with the Canadians as quickly as possible. (*Ibid.*, 611.12/1–1956) Additional documentation is *ibid.*, Conference Files: Lot 62 D 181.

221. Memorandum of a Conversation, White Sulphur Springs, West Virginia, March 27, 1956, 2 p.m.[1]

PARTICIPANTS

The President

President Ruiz Cortines of Mexico

Lt. Colonel Vernon A. Walters

The President opened the conversation by saying that he had been anxious to be able to get together informally and talk with President Cortines. This was one of the main reasons that had led him to suggest this conference.

There were on the North American continent three nations who had to live together; President Cortines interrupted to say "who were determined to live together." President Eisenhower said that one of these nations, the United States, had by a combination of circumstances reached a position of great power and wealth and that it was anxious to do what it could to be of assistance to Mexico, and could not in a patronizing way but as a good friend. We wanted only prosperity, happiness and a better standard of living for our friends in Mexico. We had achieved our present well being largely through the assistance of foreign capital invested in the United States. The President said that it was a fact that as late as 1910 the United States owed money to practically every nation in Europe—England, France, Germany, etc. Foreign capital had helped develop our railroads and the insurance business and that even in the development of the West there had been extensive holdings by British investment in the cattle ranches of our country. What we had been able to achieve had been done in the framework of the free enterprise system.

We knew that throughout the world there were in different countries varying degrees of governmental control, but basically our people believed that if a man invested his money he should be allowed, after paying due taxes, to retain what he had been able to earn. We had developed our economy in this free enterprise framework before the spread of the ideas of socialization that were developed elsewhere. We did not seek to convince others to do as we had, but our only desire was for a prosperous, happy Mexico with an ever rising standard of living.

The President said that if he were in President Cortines' place, he would not wish to see foreign capital come in and take charge of

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Secret. Drafted by Walters.

some major service in his country, but on the other hand he did not feel that obstacles should be placed in the way if certain Mexican business men felt that they needed additional capital to further their own development. As far as the government was concerned, they could undoubtedly secure loans (from the Export-Import Bank and the World Bank and similar organizations) for those projects which they felt the government itself would have to promote. President Cortines broke in to cite the railroads as an example, to say that this was an absolute necessity for Mexico.

President Eisenhower then went on to say that if he were a Mexican he would be happy to have Mexican business in a position where, if it needed help, they could get it by direct dealings with American business men. He assured the President of Mexico that the United States' major interest was not in gaining additional allies against Communism, though that played some part in our feelings, but basically what we wanted was to see Mexico strong and prosperous with a better life for her people.

President Eisenhower then said that he welcomed this opportunity to speak directly with the President of Mexico, the Chief of State of an immediate and close neighbor, and to talk over with him some of the problems and difficulties between these two friendly nations. He felt that if Dr. Cortines and himself could agree on principles, the details could be worked out by others. President Cortines said that he felt exactly the same way, and also felt that it was essential that both of them agree on principles, that if they did so and good will was shown by both sides it would not be difficult to overcome whatever difficulties might remain.

The President said that he could assure President Cortines that the United States wished only for a strong, free and democratic Mexico. President Cortines thanked President Eisenhower for this expression and said that the Mexicans sincerely believed this. He said that ever since his first meeting with President Eisenhower, he felt that they had established a direct personal and friendly contact. He said that sometimes when people met they either did not get along together or else they established an instant friendly contact. He was happy that the latter situation had occurred between him and his great friend President Eisenhower.

The President then said that the whole American people were concerned with the threat of subversion by Communist infiltration of governments. This was something on which the American people felt very strongly, as they had had examples of it in the past and knew that Soviet Embassies were not set up to do the normal and legitimate business of an Embassy, but were centers of espionage, sabotage and other subversive activities, and this was something that

had to be watched. President Cortines replied that he knew this and agreed with the President.

The President said that he wanted President Cortines to know that he appreciated the difficult problems which he had to face. He knew that the United States was a close neighbor of Mexico, a large neighbor and sometimes an awkward one. He knew that there was great desire in Mexico and impatience for progress, and sometimes this made President Cortines' task more difficult as there were those who might say, "Why can we not achieve the same standard of living as the 'gringos' right away?" He said this because he wanted President Cortines to know that he appreciated his difficulties. He added that he had never had with another chief of government such a frank and informal conversation. President Cortines expressed his gratitude to President Eisenhower for this.

President Cortines thanked the President for his understanding of his (Dr. Cortines') problems and said that Mexico had passed through a difficult period. As late as 1938, they had still had military rebellions. Since then, however, the democratic institutions of Mexico and the authority of the state had become firmly established. First they had had two military men as Presidents during this period, then a lawyer, President Aleman,[2] and finally a simple citizen himself as President. He did not say this to cast any aspersions on the military, but merely to indicate to President Eisenhower events that had occurred in Mexico's recent past. The Mexican people were driven by a burning desire for progress and an improvement in their lot.

He said that his mention of the difficulties engendered by progress earlier in the day had been an attempt to describe some of these very difficulties. Mexico's population was increasing at the rate of some 3% per year which meant an annual increase in the population of 900,000 per year. President Eisenhower then said that if only Mexico could increase her productive capacity by 6 or 7 percent per year, this would compensate for the population increase and would also provide an increase in the living standards of the Mexican population. President Cortines agreed that this was so. He said that an increase in the productive capacity of the nation had to be properly spread so that all parts of the population would benefit therefrom. He felt that if they could achieve an annual increase in production around 5%, this would be most helpful.

President Cortines said that he did not want to take up the President's time but that there were a few matters that he would like to take up with him if he might. The President said that this was the very reason that had brought him to extend the invitation,

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[2] Miguel Alemán Valdes, President of Mexico, 1946–1952.

this opportunity to talk frankly with the President of Mexico and the Prime Minister of Canada.

First of all, he wanted to tell the President how grateful he and the whole Mexican people were to the President for his personal intervention that had made possible an agreement on the question of the "wetbacks." For years they had tried unsuccessfully to obtain a solution of this problem, and finally, thanks to the personal action of President Eisenhower, this had been achieved. This was a matter that affected the Mexican people in their deepest feelings and they had therefore been extremely happy when the agreement had been reached. Previously the migrants had been illegal entrants and had been exposed to harsh treatment and sometimes injury and now this situation had been cleared up. However, there was one aspect of the matter that was still of some concern, and he would be most appreciative if the President would look into the matter. It appeared that at the border entry stations they were no longer demanding that the laborers entering the United States show their work contract. If this were not done, the value of the agreement would be lost. The President promised to look into this matter. President Cortines said that he would leave a number of small cards with notes on them for the President as a sort of aide-mémoire.

Next, there was the question of the Mexican difficulties in the matter of cotton production and sales. In reply to a question by the President, he indicated that cotton was produced in the northern part of Mexico. He said that most of Mexico's cotton production was sold abroad and only a very small part of it was used within Mexico. He said that as a result of the United States decision to sell surplus cotton, Mexican production would be reduced by some 25%. They were planning to reduce the area under cotton. The President then asked what else could be produced in these areas and how the Mexicans planned to replace cotton production. President Cortines replied that in some measure they were seeking to produce tropical products in these areas but actually there was little else that could be advantageously produced in these areas. He would be grateful if the President would look into this matter also, and would likewise leave a card with the President on this subject. He added that they were discussing this matter with the Department of State and also through the Embassy in Mexico City.

President Cortines said that there was still one matter that he would like to mention to the President. He apologized for taking up his time. This was the matter of fisheries. There had been difficulties with regard to these fishing rights. President Eisenhower inquired as to whether this was on the East coast or on the Pacific coast. President Cortines replied that this was principally in the Gulf of Mexico area but also applied in lesser measure to the Pacific Coast

as well. President Eisenhower then asked if the trouble was with patrol boats or with regard to trespassing in coastal waters, and President Cortines indicated that there was some of both. President Eisenhower then said that just as it had been possible to create a regulatory body to handle problems relating to the "wetback" agreement, it might also be possible to set up something similar to handle this matter. President Cortines indicated agreement on this, and also indicated that he would leave a note on this subject.

The President of Mexico then indicated that he did not wish to take up any more of the President's time, and the President said that there was one more matter which he wished to mention briefly to President Cortines. This was the matter of air routes. The only line authorized to fly between our largest city and the capital of Mexico was a French airline. The President said that he would like to see United States and Mexican carriers flying not only on that route, but also on other routes between major United States cities and Mexico. If the Mexicans needed help to set up their part, the United States would see what could be done to assist them. The President said that he had no favored company of any sort, but he felt that there should be both United States and Mexican carriers on these routes. He felt that everything should be done to provide the public with this service, as that would help increase tourism in Mexico, and that would result in numerous benefits to the country and would stimulate the building of hotels, development of communications within Mexico, and so forth.

President Cortines replied that he had been working on this matter, and he felt that it should be settled as it had been pending for a long time. He wondered if it would be possible to send down some experts on this matter, not because the United States Embassy in Mexico was not fully up-to-date on the matter, but he felt that there were certain technical aspects which should be ironed out. The President asked President Cortines if he meant experts on air routes, and the Mexican President said that this was what he had meant. He concluded by saying that, as the President had indicated at the outset of the conversation, if they could only agree on principles, others could work out the details of these matters. It was essential that this matter be satisfactorily solved. The President said that he was happy to hear this, and repeated that the United States would be willing to study the matter and see what could be done to assist the Mexicans if they needed such help to get their carriers prepared to operate these services alongside the United States carriers. He felt that it was important that such service be provided for the reasons he had mentioned before, between major United States cities and Mexico.

President Eisenhower then said that he understood that the Mexican President was going out later in the afternoon with Assistant Secretary Holland and Dr. Milton Eisenhower for a ride around the countryside. He hoped that the President of Mexico would enjoy the ride and he was happy that Dr. Cortines would have an opportunity to talk to Dr. Eisenhower.

President Cortines then repeated his thanks for the President's invitation and the opportunity it had given him for this meeting with his great and good friend President Eisenhower. He then took his leave of the President.

Addendum to Memorandum of Conversation prepared by Lt. Col. Vernon A. Walters, of the President's conversation with President Ruiz Cortines of Mexico, March 27, 1956, at 2:00 P.M., in the President's suite at the Greenbrier.

In addition to the subjects discussed, which are covered in this very excellent memorandum from Colonel Walters, President Cortines brought up to me the matter of the working conditions of Mexicans who come in legally and on a temporary basis to work in the Southwestern United States. He said that in many states they worked extremely long hours and under other conditions that were not satisfactory. I told him I would see what we could find out about this.

DDE[3]

[3] Printed from a copy which bears these typed initials.

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222. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Deputy Under Secretary of State for Economic Affairs (Prochnow)[1]

Washington, April 13, 1956.

SUBJECT

Mexican Applications Pending before Export-Import Bank

In a conference with Mr. Hoover before he left town we agreed that the Department would urge that the Export-Import Bank hold

[1] Source: Department of State, Central Files, 103–XMB/4–1356. Secret.

up for the time being on Mexican applications for loans to a steel mill in Monterrey, to the government steel mill in Monclova and to the Mexican railroads. I am leaving town and shall be gone for a week. I hope that you will hold the fort and if the question comes up in my absence, I would be grateful if you would have someone reach me by telephone wherever I may be before any change in the policy suggested here is adopted.

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223. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Under Secretary of State (Hoover)[1]

Washington, April 17, 1956.

SUBJECT

Eximbank Loan Applications from Mexico

This morning I had a call from Sam Waugh protesting strongly the view of the Department of State on the matter of dragging our feet in connection with the requests from Mexico for loans. The particular loan in question at the moment is to Fundidora de Fierro y Acero de Monterrey for approximately $26 million. Mr. Waugh says they are ready to move and that a delay would give the Bank a bad reputation. He thinks it is a mistake to delay a credit to a private company in Mexico.

You are aware of Mr. Holland's views. I talked with Ambassador White yesterday and he thinks that the Central Bank would soon learn about the delay and that a delay would be helpful to us. At present I am going along with Mr. Holland and Ambassador White on this procedure on the delaying tactics with the Fundidora loan because of its size and on any Mexican Government credits.

Have you any suggestions?[2]

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[1] Source: Department of State, Central Files, 103–XMB/4–1756. Confidential.

[2] A handwritten note on the source text reads: "4/19 Mr. Hoover discussed with Mr. Prochnow and Mr. Burgess, Treasury." A memorandum of the Secretary's Staff meeting, dated June 26, 1956, summarized Assistant Secretary Holland's report on the Mexican loan situation as follows: "Mr. Holland said that Mr. Waugh, President of the Ex-Im Bank, wished to speak with the Secretary about the Mexican loan situation. In response to a question from the Secretary, Mr. Holland said Ambassador White now seems to believe that we should go ahead with the steel loan while delaying action on other loans now pending. Mr. Holland emphasized the urgency of the matter." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

224. Editorial Note

The National Advisory Council on International Monetary and Financial Problems met on April 20 to consider a proposed Export-Import Bank credit of $26 million to a privately-owned Mexican steel company, Cía Fundidora de Fierro y Acero de Monterrey. Minutes of this meeting read in part:

"The Chairman informed the Council that the Department of State had expressed reluctance to proceed with this credit at this time because of certain political problems with the Mexican Government, and inquired whether a delay in granting the credit might assist the Department of State in working out these problems. Mr. Prochnow explained that the Department of State favored the credit, but felt that a delay might assist in the solution of some of these problems, particularly in view of the very large amount involved.

"Mr. Waugh expressed the view that the withholding of Eximbank loans to foreign governments to further the political objectives of the U.S. Government was appropriate, but he expressed doubt that loans to private enterprises should be used for the achievement of political objectives.

"The Council discussed the proposed credit and the request of the Department of State for delay. The representative of the Department of Commerce stated that Commerce had no objection to the credit, on the understanding that the granting of the credit would not imply a moral commitment that the United States would supply scrap iron for the Mexican steel mill. No objection was raised to the proposed credit in principle, but since it appeared that delay for a reasonable period might assist the Department of State in the solution of its problems with the Mexican Government, the Council agreed that further consideration of the credit should be deferred for the time being, subject to reconsideration at any time at the request of either the Eximbank or the Department of State." (Department of State, NAC Files: Lot 60 D 137, Minutes)

The Acting Chairman of this session of the NAC was W. Randolph Burgess of the Department of the Treasury. The representative of the Department of Commerce was Marshall M. Smith.

225. Memorandum Prepared in the Office of Middle American Affairs[1]

Washington, May 3, 1956.

SUBJECT

Department of State Policy on Export-Import Bank Loans to Mexico in Relation to Fundidora Loan Application

The Department of State has not been satisfied with the small degree of progress it has been possible to make in recent years toward the solution of a number of problems of great importance to the Unites States which needlessly complicate our relations with Mexico. For example, it has not been possible to negotiate aviation, broadcasting, or commercial agreements, or to settle long-outstanding claims. Mexico has failed to control communist subversive organizations effectively, and is definitely hostile to the United States position on territorial waters. Moreover, the policies and attitudes of the Mexican Government of various organizations, and of Mexican businessmen toward foreign investment in Mexico, particularly United States investment, has caused the Department considerable concern because of possible effect upon the confidence of United States investors in the future course of Mexico's economy. Strong socialistic and nationalistic forces advocate greater Government regulation of business and more restrictions on foreign capital. The underlying attitude is that foreign investments should be limited to certain basic industries such as power or mining, where risks are great and profits small; that the manufacturing and commercial industries should be reserved for Mexican capital; and that, if foreign capital participates in those segments of the economy, it should be permitted to do so only as an adjunct to Mexican capital in enterprises predominantly controlled by Mexicans. While this type of propaganda has been carried on for a number of years by certain officials of the Government and groups they represent, the most immediately disturbing fact is that large numbers of businessmen who fear foreign competition, appear to have espoused the movement without examining the facts critically. Pamphlets on this subject recently published under

[1] Source: Department of State, Central Files, 812.10/5–856. Confidential. Transmitted to Secretary Humphrey under cover of a letter dated May 8 from Under Secretary Hoover which reads: "The other day in discussing the Fundidora loan with Herbert Prochnow, you requested a memorandum covering some of the points of the discussion. The attached memorandum has been prepared by the Bureau of Inter-American Affairs, which I trust may help clarify some of the problems we have in this situation. A copy of the memorandum is also being sent to Sam Waugh." (*Ibid.*) A copy of the memorandum was transmitted to Waugh under cover of a note from Prochnow, May 8. (*Ibid.*)

the authority of the National University of Mexico are extremely leftist and in some cases appear to be Communist inspired. Mexican businessmen, without studying the matter, have taken up this cry probably from the short-sighted point of view of trying to avoid immediate competition, overlooking the fact that if American private enterprise in Mexico is throttled, private domestic enterprise will risk next coming under Government control and direction.

The official attitude of the Mexican Government favors private enterprise and foreign investment, and at the White Sulphur Springs meeting the President of Mexico said that an increase in foreign financial cooperation is essential to the continued economic development of Mexico. Nevertheless, he has been unwilling to take positive action to combat anti-foreign investment propaganda and to show foreign capital that it is welcome in Mexico.

The Department has considered what measures might be taken to elicit decisive action by the President of Mexico not only on outstanding government-to-government problems but also on those arising from the current attitude toward United States investments in Mexico. It has concluded that, in the Mexican situation, our lending policies could be utilized effectively in helping to attain over-all United States political and economic objectives in Mexico. To the end that Mexican authorities may be brought to the realization that a more cooperative attitude on their part towards problems of vital interest to the United States would bring about better results in relation to needed financing, the Department has asked the Export-Import Bank to defer for a time *all* decisions with regard to loans to Mexico of a substantive nature. Otherwise, little or no progress can be expected in the foreseeable future on matters which are of vital concern to us. Deferment of announcement of the proposed credit of $26 millions to Cia. Fundidora de Fierro y Acero de Monterrey appears to afford an excellent opportunity to help achieve our objectives in Mexico. The Department is aware that Fundidora is a wholly privately owned organization and that the proposed credit meets Bank requirements. Nevertheless, the Department feels that in deferring announcement of the credit its general policy will be furthered, and the Mexicans will be encouraged to reverse the trend of their thinking on foreign investments and help, rather than impede, them.

The President of the Export-Import Bank was informed of the Department's views on the Mexican situation prior to his departure on a trip to Mexico in March. He indicated he would make no definite commitments until he returned to Washington. In his conversation with President Ruiz Cortines there was discussion of the date for dedicating a new installation at Fundidora (made possible largely by Eximbank funds) at which announcement would be made,

in Mr. Waugh's presence at the ceremonies, of the granting of the new $26 million loan. The Department feels that an announcement under such circumstances would give President Ruiz Cortines opportunity to take full credit for arranging the loan as a result of the White Sulphur Springs meeting, and that the loan announcement, supported by the visit of Mr. Waugh to Monterrey specifically for the ceremonies, would indicate that all is well in United States-Mexican relations, thus vitiating any beneficial effects which might result from delay in announcement of decision on pending loans.[2]

[2] In a memorandum to Prochnow, June 6, Holland wrote:

"I am informed that the Board of Directors of the Export-Import Bank, at their meeting on Thursday, June 7, will take up the application of the National Railways of Mexico for an interim credit of $23,260,000, the balance remaining from the $150,000,000 line of credit authorized August 31, 1950. The Staff Committee recommends not only that the interim credit be authorized, but that the Bank make a general commitment to Mexico to provide financial assistance for the completion of the rehabilitation program.

"ARA requests that you remind the Board of the existing policy with respect to loans to Mexico and ask that it defer consideration of this application for the present." (*Ibid.*, 812.10/6–656)

226. Letter From the Ambassador in Mexico (White) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Mexico City, May 31, 1956.

DEAR HENRY: Enclosed herewith are copies of memos of my conversation with President Ruiz Cortines on the evening of May 28th.[2]

I am waiting today to hear from Gorostize when he has had his acuerdo with the President when he will see me. He promised it would be either this afternoon or tomorrow.

On Communism, you will see that the President has said that he will appoint somebody to deal with this matter with us. In view of the very flaccid manner in which the Minister of Education[3] has handled the Communist inspired student strikes at the Polytechnic

[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Confidential; Official–Informal.

[2] Texts of Ambassador White's conversations with President Ruiz Cortines, dated May 29, prepared as individual memoranda, numbered 1 through 6, are *ibid.*

[3] José Angel Ceniceros.

Institution and at the Normal School without the President insisting, even when there were newspaper editorials clamoring for positive action against the hoodlumism and vandalism of the students, I am not too sanguine that anything really effective will come out of it. However, all we can do is endeavor in every way to bring to him the realization of the danger of Communism and urge some action on his part to counteract it. Frankly I don't think we will get to first base on this until Cardenas disappears from the political scene.

You will note that on fisheries[4] and on the Sabalo[5] he will take the matters up with Padillo Nervo. On the fisheries he was in earnest, and I don't think knew anything about the suggested fisheries convention proposed to Mexico two years ago. On the Sabalo he was plainly stalling.

The talk with him on the Chamizal matter[6] was interesting. I must say it had me wondering why he brought the matter up, even left-handedly at the last moment as he did at White Sulphur Springs. Maybe he and Padilla thought they could get a great diplomatic victory over the United States and that nothing was to be lost in trying it out anyhow. I cannot feel that they really want to sit down and work out a practicable settlement. After the matter has lain dormant for a few more months I shall sound him out again, however.

The loan to the Pacific Railroad really has him bothered, and from what I can see the failure of the Fundidora and of Altos Hornos to get loans has had repercussions that should be healthy in the business community. The Bankers Association, the Federation of Chambers of Commerce, and the Industrial Chamber of Commerce are now studying all foreign investment in Mexico. The latest

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[4] According to memorandum no. 3 on this subject, Ambassador White stated to President Ruiz Cortines the following:

"The territorial limit cannot be changed unilaterally on the whim or political motives of individual countries. I said that should we accept to have our boats taken outside the three mile limit by Mexico the same would be used against us in other parts of the world, and on such a basis we might be required to withdraw our 7th Fleet from Formosa—nor would we be able to operate on the high seas between Japan and Korea. I said that the matter is of vital importance to us and I thought the President would not want to do anything that would make our dealings difficult on such an occasion. The President said that in any war we could count on Mexico being with us."

[5] Reference is to an American-owned company which lost its physical properties but not its contractual rights when the oil expropriation decree was promulgated by the Mexican Government in 1938. When denied access to lands held under its contract, the Sabalo company sought, through the courts, an alternative contract or cash compensation from the Mexican Government.

[6] Reference is to a tract of land in the area of El Paso, Texas, along the Rio Grande River border, ownership of which was disputed by Mexico and the United States because the river's course had shifted since the original boundary was drawn in the 19th century.

pamphlet of the Chamber of Transformation Industries has taken a crack at all these other organizations so it has them pretty well aroused and something may well come of it, especially if we continue to hold the line.

I shall of course inform you of any further developments in any of these matters so soon as they occur.[7]

Ever sincerely,

Francis

[7] In a letter to White dated June 21, Holland wrote: "I have read the memoranda with a great deal of interest, but am reluctantly forced to the conclusion that the outlook for definitive action on communism or settlement of the Chamizal problem is not bright." (Department of State, Holland Files: Lot 57 D 295, Mexico)

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227. Memorandum of a Telephone Conversation Between the Assistant Secretary of State for Inter-American Affairs (Holland) and the Ambassador in Mexico (White), June 14, 1956[1]

SUBJECT

Loans for Mexico and Aviation Agreement Problem.

At 11:30 p.m. on June 14, the Ambassador called me and made more or less the following statements:

He had just come from a conference with the President of Mexico. The Export-Import Bank had revealed to the Mexican Government that the Department of State had instructed that action on loans for Mexico be held up until the Department of State authorized further action. The President of Mexico said he had read this in "Hanson's Newsletter". The Ambassador knew that the report had come from the Bank Staff.

As regards the Aviation Agreement the Ambassador said that we had met the wishes of the Mexican Government on every point, and that we should be able to reach an agreement now.

The President "got truculent" at the end of the conference. He said that he was holding up action on the Aviation Agreement until he determined whether we were using Mexican applications for

[1] Source: Department of State, Central Files, 812.10/6–1456. Confidential. Drafted by Holland.

loans as a means of exerting pressure on him to get an Aviation Agreement.

The Ambassador assured him that this was not the case. The President was primarily interested in the railroad loan.

The Ambassador had had a two hour talk with Carrillo Flores on the preceding Friday and a one and one-half hour talk on the preceding Monday. The same question arose, i.e., whether the State Department had instructed that action on Export-Import Bank loans be held up until further instructions. The Ambassador had assured Carrillo Flores that this was not the case.

The President told the Ambassador that Mr. Pape of Altos Hornos, the Mexican steel mill in Monclova, had told the Mexican Government that he had been informed at the "technical level" of the Export-Import Bank that the State Department had taken the position stated above. The President told the Ambassador that he would not thus be under pressure to approve an Aviation Agreement.

He said that he was the President of Mexico and that he would not be put under pressure.

As regards his failure to reach a decision on the Aviation Agreement, the President said that he had not gone into the matter yet. The Ambassador said that in 1947 and again in 1950 the United States had been assured that if it made certain specific concessions to the Mexicans we would be given an Aviation Agreement. We had made the concessions and nothing had happened.

The Ambassador said that he felt that the President of Mexico was playing for time in order to determine whether the United States is attempting to exert pressure on him.

. . . . . .

The Ambassador said he had asked the President whether he should report to Washington that the Mexican Government was linking an Aviation Agreement to our favorable action in its loan applications. Must we give the loans in order to get an Aviation Agreement. The President replied that this was not the case, but that he wanted to know whether the United States was drawing such a connection.

The President told the Ambassador to discuss the matter with Minister Carrillo Flores on Monday. The Ambassador told me that he would not ask for the meeting until he had received Washington's instructions as to what course to follow. He said that he saw two courses between which we could choose:

1. To grant the Fundidora loan as evidence that we are not using the loans as a means of exerting pressure; then ask the

Mexicans what they are going to do about the Aviation Agreement. In the meantime, we could hold up on all other loan applications.

2. We could tell the Mexican Ambassador frankly that we would not do anything on any Mexican loan applications until the Mexicans took action on the Aviation Agreement.

The Ambassador said he had told the President that the action of Mexico at the Jurists' Conference in Mexico City had made the worst impression in the United States of anything that had occurred since the Caracas Conference.

He said that the President was most interested in the railroad loan; that if we gave in on the Fundidora loan we could study the railroad loan and other applications for a long time.

I told the Ambassador that any report that the United States was using the loans as a means of exerting pressure for an Aviation Agreement was incorrect; that we had been following the course of the study of the Aviation Agreements; that we felt sure that they would reach a decision in due course; that we here in Washington had heard the same rumor; i.e., that the Department of State had instructed the Bank to hold up on all loan applications until we told them to go forward; that this was completely inaccurate, and that we had so advised the Mexican Ambassador. I said that the Mexican Government would simply have to understand that these matters took quite a while for their study and decision. We, on our part, had heard reports that the Mexican Government was holding up its decision on the Aviation Agreement as a means of exerting pressure on the United States Government to act favorably on the loan applications. We had rejected these reports as being completely untrue, and the Mexican Government would simply have to accord to us the same good faith that we accorded to them.

The Ambassador said that he would undertake to see the President of Mexico on Friday, June 15, and report my statements to him.

228. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, June 26, 1956.

SUBJECT

Mexican Aviation Agreement and Loans

Background

For a number of years we have been trying unsuccessfully to negotiate an aviation agreement with Mexico. Some time ago it was decided to hold up loans to Mexico until such an agreement is achieved. The loans of interest to Mexico now being held up under this policy are $26 million to the privately owned Fundidora de Fierro y Acero of Monterrey, $23.5 million to the Government operated National Railways of Mexico, and $23,659,000 to the Government owned steel mill Altos Hornos. For several weeks now the Mexicans have been asserting that the technical staff of the Export-Import Bank has told them the Bank is held up under instructions from the Department of State. Ambassador White and I have told the Mexicans that the loans are simply still under study. The Bank has been very eager to grant the Fundidora loan, but Mr. Waugh has said he is willing to hold up on Government to Government loans. In conference with Mr. Hoover he stated he had a basis for holding up Government to Government loans—there are matters that could be studied. He now takes the position if Government to Government loans are suspended he would want to tell the Mexicans that the Bank had been instructed to do so. On June 14, Ambassador White had a conference with the President of Mexico as reported in the attached memorandum[2] (Tab A) in which the latter said he had been informed we were delaying loans to get an aviation agreement and he had given instructions to hold up action until he had determined whether he was being subjected to pressure from us. On June 18, Ambassador White had a conference with Mexican Minister of Finance Carrillo Flores in which the latter said he would take the aviation matter up with President Ruiz Cortines. On June 22, White had another conference with Carrillo (Tab B)[3] in which the latter made the following points: 1. The Government is disposed to give us an aviation agreement eventually; 2. The Government wants some helpful gesture from us now; 3. He did not

[1] Source: Department of State, Holland Files: Lot 57 D 295, Mexico. Secret.
[2] *Supra.*
[3] No record of this meeting has been found in Department of State files.

make a proposal to tie announcement of the aviation agreement and loans together, but said it would be a nice thing.

Pressure from United States suppliers for the Fundidora loan is getting strong and I feel that it should be granted. Yesterday I proposed to Waugh and four directors of the Bank that we instruct White to see Carrillo and tell him the following: (1) That we accept Carrillo's assurances that they are not holding up the aviation agreement until they get loans. (2) That we are concerned, of course, by the President's statement that he is holding up the aviation agreement. (3) That bearing in mind Carrillo's statement it would be nice to make a joint declaration, we should all work hard to try to get one this week on aviation, Fundidora and National Railways loan. (4) That if the Mexicans refuse to do this we immediately grant the Fundidora loan as evidence we are not exerting pressure and then hold up government-to-government loans until we get an aviation agreement. Waugh rejected this proposal and said he would not agree to any move until he had seen you.

All the foregoing facts pose two problems: (1) the basic policy problem of whether Export-Import Bank loans shall or shall not be related to foreign policy objectives of the Government and (2) what we are going to do about the particular narrow problem of the Mexican aviation agreement.

On the broad policy question I feel that we must be prepared at times to relate Eximbank loans to objectives of U.S. foreign policy. However, this must be done most cautiously and on a case-by-case basis. It should not as a rule be done openly. That would give rise to accusations of dollar diplomacy. This will require judgment and caution in analyzing each particular case.

Recommendation

On the narrow problem of Mexican aviation we should either adopt the course recommended to Waugh or we should without discussion promptly grant the Fundidora loan and have White inform the Mexicans that this is evidence that we were not linking the aviation agreement and loans as the Mexicans have accused. He should at the same time urge immediate action on the aviation agreement, and we should hold up government-to-government loans until one is achieved.

229. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Under Secretary of State (Hoover)[1]

Washington, June 28, 1956.

SUBJECT

Air Transport Negotiations with Mexico

Background:

On May 28, 1955 representatives of the Department of State, the Civil Aeronautics Board and the White House met to discuss air transport negotiations with Mexico and agreed upon a procedure for continued negotiations *without publicity* or airline consultations (Tab A).[2] During the intervening year the United States Ambassador to Mexico has been negotiating with Mexican officials and more recently directly with the President of Mexico. A number of changes in approach have been required in the course of the negotiations. It is now possible that the position which has been most recently presented to the Mexican President will receive his approval. A copy of the proposed agreement with the proposed collateral exchanges of notes is attached (Tab B).

Current Procedural Problems:

I. In view of the secrecy which has surrounded these negotiations, it has not been possible to confer with the United States air carriers in the manner in which such consultations are normally held during the course of other aviation negotiations. Consequently the Department, the White House and the CAB are faced with the necessity of making an early decision: (1) Continuation of the exceptional policy of no consultation with the airlines with the consequent risk of airline and Congressional complaints against the deviation from normal procedure; and (2) Immediate consultation with the airlines with consequent intensified US airline activity in Mexico which might destroy the present possibility of agreement. The several considerations involved are set forth in Tab C.

II. Several representatives of interested Congressional delegations from Louisiana and California have expressed a hope that they might receive an advance briefing prior to the announcement of the conclusion of an agreement. If the present draft agreement is accepted by Mexico, such a Congressional briefing would serve to establish

[1] Source: Eisenhower Library, White House Central Files. Confidential.
[2] None of the tabs attached to this memorandum is printed.

fairly strong support for the agreement which would, in part, offset the inevitable procedural criticism should it be decided not to hold prior consultation with the affected airlines.

III. Since satisfactory conclusion of the agreement may be imminent and because our Ambassador has been dealing directly with the President of Mexico, considerable embarrassment could result from any appreciable delay in giving our Ambassador authority to sign. In order to minimize possible delays, Circular 175 procedures should be initiated immediately and clearance be given to the attached draft agreement (Tab B) and full powers should be prepared for prompt issuance. This exceptional procedure would only be undertaken with the full understanding that any further changes in the agreement proposed by the Mexicans and proved acceptable to the United States would also be cleared under the Circular 175 procedure *before* the full powers were actually transmitted to Ambassador White. This unusual step is urged because the President of Mexico has, in an effort to achieve agreement, disregarded the urgings of his own Cabinet officers.

Conclusions:

I. On the difficult question of consultation with the airlines: in view of the overriding objective of obtaining an agreement, the more effective course would seem to be to maintain the policy of no consultation. However, this course runs the serious risks outlined in Tab C. Consequently, this matter should be fully discussed at an early meeting between representatives of the White House, Department and CAB. Such a meeting should preferably be called by the White House.

II. There would appear to be some advantage in a briefing of the interested members of Congress shortly before public announcement of any agreement. This matter should also be discussed at the recommended meeting.

III. Every effort should be made to put the US Ambassador in a position to sign promptly if and when he should receive an indication of agreement from the President of Mexico.

Recommendations:[3]

1. The Under Secretary discuss with appropriate White House Aides Problems I and II with a view to having the White House call an early meeting at which representatives of the Department, White House and CAB may agree on procedures for airline and Congressional liaison.

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[3] Hoover initialed his approval of these recommendations on June 30.

2. The Under Secretary agree to the accelerated Circular 175 procedure, and clear the attached draft agreement (Tab B) and direct that all preparations be made for the immediate issuance of full powers to Ambassador White should he report agreement with the Mexican President.

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230. Editorial Note

In a letter to Assistant Secretary Holland of July 11, Ambassador White wrote that he was reluctant to resolve the aviation agreement negotiations with Mexico by an exchange of notes as proposed by President Ruiz Cortines and Minister of the Treasury Carrillo Flores. White wrote in part:

"On thinking the question over further, however, it occurs to me that we can call their bluff and put them in a difficult position if we accept an exchange of notes and then reproduce textually the standard Bermuda-type form of agreement in that exchange. I am not so sanguine or naive as to feel that this will bring them around because I still feel that Ruiz Cortines is holding out to see what happens on his railroad loan, despite Carrillo Flores' disclaimer of any linking up of the two. However, it does call another bluff of theirs and strengthens our case of having met all their requests, should we come to a breakdown in the negotiations. Furthermore, this manner of presentation will give me a final text for them to accept or not and will cut the props from under Buchanan's insistence that technicians come to discuss the matter, the matters of principle having been accepted. We have met them on the two outstanding matters of principle and there were no other technicalities to be ironed out so there is really nothing further for technicians or others to haggle about. That does not mean that Buchanan will not attempt to do so if possible but if I can hand the text of the note to Ruis Cortines or Carrillo Flores stating that it covers everything agreed to and point out in the text where these points are covered, it certainly puts them on the spot—not that they mind being there or want to do anything about it—to hold out longer." (Eisenhower Library, White House Central Files)

White attached to this letter a draft note embodying the air agreement.

On July 17, the Aviation Division of the Office of Transport and Communications transmitted a copy of White's draft proposal to the Civil Aeronautics Board. In a letter to Deputy Under Secretary Prochnow dated July 18, James R. Durfee, Chairman of the CAB,

wrote in part: "The Board is seriously concerned over the Ambassador's proposal to refrain from offering Mexico at this time rights beyond the United States on either the New York or Miami route, and rights beyond Chicago to points in Canada. The Ambassador states that he has deleted beyond rights on these routes for tactical reasons. It is our understanding that such rights were offered to Mexico in January and that the offer is still outstanding, and it occurs to the Board that failure to reaffirm such offer in the current proposal may lead to a breakdown of the negotiations." Despite these reservations, Durfee wrote further that the Board believed Ambassador White was in the best position to judge the reactions of the Mexicans to this proposal and that the Board would make no objection to presenting White's draft note to the Mexicans. (Department of State, Central Files, 611.1294/7–1856) In telegram 147 to Mexico City, July 18, the Department stated that it had no difficulties with White's proposal concerning the aviation agreement negotiations. (*Ibid.*)

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231. Memorandum From the Under Secretary of State (Hoover) to the Assistant to the President (Adams)[1]

Washington, July 13, 1956.

SUBJECT

Export-Import Bank Credits for the Last Six Months of 1956

I understand that the Export-Import Bank has been asked to determine how their activities may affect the business outlook for the remainder of the year. Policy decisions by the Department of State quite naturally affect the Bank's operations. In general, the Department has supported a more active Export-Import Bank both in the interests of our foreign policy and the American business community.

There is one instance which I believe may be brought to your attention where there is an exception to this general rule, again for foreign policy reasons. We have thought that some delay—a slow down—in credits to the Government of Mexico would have a beneficial effect upon our efforts to obtain an aviation agreement with Mexico. The leverage we can exert in this matter is limited and

[1] Source: Department of State, Central Files, 103–XMB/7–1356. Secret.

we want to make the best use of the tools at our disposal. We have asked the Bank to cooperate with us in this endeavor. We have already detected some signs of progress towards the agreement and believe that the Bank's natural desire to make more loans will not be seriously or long impeded by this exception to general policy. On the other hand, the aviation agreement when obtained will have many beneficial results outweighing considerably, we believe, the temporary disadvantage.

Herbert Hoover, Jr.

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232. Letter From the Acting Secretary of State to the Secretary of the Treasury (Humphrey)[1]

Washington, July 25, 1956.

DEAR MR. SECRETARY: Recent developments make it necessary immediately to increase Coast Guard patrol activities in the waters off the Gulf Coast of Mexico.

During recent years Mexican patrol vessels have at somewhat lengthy and irregular intervals seized American shrimp boats for fishing within Mexican territorial waters. Evidence concerning the location of the boats, although generally rather conflicting, usually indicated that they were seized for fishing within three miles off the coast of Mexico. Recently the number of seizures has increased with some being taken between three and nine miles off the coast of Mexico, an area claimed by Mexico as territorial waters.

Beginning in June of this year there has been increasing evidence from reliable sources in the United States fishing industry that the Mexican patrols now are seizing boats in the area beyond nine miles off the coast of Mexico. During the present week at least six boats have been reported seized at distances between nine and fifteen miles from the Mexican coast north of Tampico. This new development, coupled with the radical position Mexican representatives have taken at recent international meetings concerned with the freedom of the sea, strongly indicates that the Mexican Government is beginning to implement a new and much more extreme policy with respect to her claims to territorial waters and jurisdiction over fishery resources. The recent intensified and extreme measures taken

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[1] Source: Department of State, Central Files, 611.126/7–2556. Confidential. Drafted by William C. Herrington of the Office of Fisheries and Wildlife.

by Mexican naval patrols against American shrimp boats, which now generally concentrate their fishing activities in waters more than nine miles from the coast of Mexico, has given rise to widespread and intense indignation in the industry with increasing demands for retaliation. It is reported that guns are being taken aboard some shrimp fishing vessels and serious incidents are almost sure to develop unless immediate action is taken to ameliorate the situation.

In order to facilitate United States action regarding this situation, reliable data are needed concerning the positions and circumstances of seizures. The only practical way to obtain such data is through Coast Guard patrols which may be assigned to the area. Therefore, it is requested that the Coast Guard immediately and on a temporary basis increase its patrol activities in the area where seizures are occurring so as to determine, so far as practicable, the precise locations of United States fishing vessels when subjected to interference by Mexican naval vessels and to record any other observed factual data concerning such incidents. Because of the conflicting United States-Mexican claims to territorial waters, the patrol activities as aforesaid should be confined to the waters lying beyond nine miles from the coast of Mexico.

It is believed that prompt increase in the patrol activity of the Coast Guard may also have a healthy influence on activities of Mexican patrols and exercise a calming influence on the United States shrimp fishing fleet. This may serve to prevent the development of serious incidents which would greatly intensify the problem.

In view of the seriousness of the present situation and the relation between this problem and the continuing problem of territorial waters, it is further requested that you indicate the conditions whereunder the Coast Guard could make additional patrol boats available for these purposes on a continuing basis in this or other areas off Central or South America where such incidents may occur during the next several years. This includes waters off the Gulf

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[2] In a letter to Secretary Dulles dated August 6, Assistant Secretary of the Treasury David W. Kendall wrote in part: "In conformity with your recent verbal request, the Coast Guard temporarily has increased the number of ships maintained on patrol in the area from one to two. The Coast Guard will continue this arrangement, so far as practicable, so long as the unsettled condition in these waters persists." (*Ibid.*)

In a memorandum to Rubottom dated December 4, Kennedy M. Crockett, who became Officer in Charge of Mexican Affairs on September 23, stated his reservations about this letter to Secretary Humphrey. Crockett wrote: "I feel that the description of the situation as set forth in the letter of July 24 is not an accurate reflection and therefore cannot formulate a sound basis for consideration of remedial measures which the Department and the Coast Guard might take." Crockett noted further: "There has not been any 'increasing evidence from reliable sources in the United States fishing industry that the Mexican patrols now are seizing boats in the area beyond nine miles off the coast of Mexico.' There have been increasing claims of this

Coast of Mexico and waters off Ecuador, Peru, Costa Rica, El Salvador, and possibly other waters.[2]

Sincerely yours,

For the Acting Secretary of State:
R.R. Rubottom, Jr.[3]
Acting Assistant Secretary
for Inter-American Affairs

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nature made by the fishing industry but no evidence that can be considered at all conclusive." Crockett recommended to Rubottom that ARA "take the initiative in trying to reach a temporary solution or alleviation of this problem and, eventually, a permanent solution." Crockett suggested that to reach a solution, the Department should use the Coast Guard patrols to develop factual information about the daily activities of the fishing industry in the Gulf of Mexico. Rubottom initialed his approval of this recommendation. (*Ibid.*, 611.126/12–456)

[3] Printed from a copy which bears this typed signature.

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233. Memorandum From the Officer in Charge of Mexican Affairs (Hughes) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, August 9, 1956.

SUBJECT

Mr. Waugh's attitude towards Policy on Loans to Mexico—Proposed National Railways Credit.

Problem

1. The Mexicans are increasing pressure on the Eximbank for action on the $23.26 million National Railways credit. Mr. Waugh, at the August 2 Board Meeting, indicated extreme irritation over what he termed the Department's blocking of the loan, and implied he would resort to drastic action, as he had done when he went directly to the Secretary and Mr. Hoover in the case of the Fundidora loan, if the railroad loan matter is not resolved in the near future.

2. Ambassador White has made two strong recommendations relating to the subject of this memorandum with a view to assuring that the existing policy on loans to Mexico shall be held firmly for the present, and that the railroad loan, when made, shall be subject to stronger conditions that those now contemplated by the Bank.

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[1] Source: Department of State, Central Files, 912.712/6–2556. Secret. Drafted by McGrory.

Discussion

The Embassy does not agree that the conditions the Bank is prepared to impose in the railroad loan contract go far enough in obtaining positive assurance that the credit will contribute fully to the overall improvement in the management and operation of the railroad, and enable it to service the loan without continued dependence upon hidden subsidies from the Federal Treasury. Not to impose broader conditions would tend to perpetuate a situation which has resulted in the railroad's obtaining no more than 40 percent of the value of past Eximbank loans totaling more than $100 millions.[2]

The Ambassador reports that both President Ruiz Cortines and Finance Minister Carrillo Flores have expressed satisfaction with respect to the conditions imposed by the World Bank in the case of the $61 million loan to the Pacific Railway. The latter has indicated forthrightly his interest in the imposition of similar conditions for the National Railways, due account having been taken, apparently, of the political feasibility of that course of action.[3]

At the instance of the Finance Minister, Ambassador White has suggested (Tab A and Tab B, as marked[4]) that the Bank prepare a letter to Sr. Amorós, subject to prior clearance by the Department and the Embassy and to be forwarded when related developments warrant, setting forth conditions for the projected National Railways loan which will parallel those imposed by the World Bank on the Pacific Railways. Mr. White earnestly requests advice from the Department with regard to this suggestion.

Recommendation

That you, with Mr. Prochnow, seek an early opportunity to obtain (1) Mr. Waugh's continued cooperation in maintaining the existing loan policy for Mexico and (2) his favorable consideration of Ambassador White's proposal regarding conditions to be imposed on the railroad credit when it is extended, including the letter to the Director General of the National Railways, Sr. Amorós. Care must

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[2] The Embassy transmitted these views in detail in despatch 77 from Mexico City, July 24. (*Ibid.*, 912.712/7–2456)

[3] In telegram 398 to Mexico City, August 28, 1956, the Department noted that it had reviewed with Waugh the Embassy's suggestion that the conditions imposed on Mexico for the Pacific Railroad loan also be applied to the proposed loan for the National Railways. The telegram reads in part: "Bank Board Directors holds firmly position it definitely committed make loan at appropriate time." (*Ibid.*, 912.712/6–2556)

[4] Neither printed. A handwritten note on the source text indicates that the attachments were telegram 1987 from Mexico City, June 22 (*ibid.*, 611.1294/6–2256), and telegram 1996 from Mexico City, June 25 (*ibid.*, 912.712/6–2556).

be taken that Mr. Waugh will not take advantage of such a request in his desire to make the loan immediately.

Other Attachments[5]

1. Letter, July 23, Mr. White to Mr. Holland (original) Tab C.
2. Letter, August 2, Mr. White to Mr. Rubottom (flimsie) Tab D.

[5] Neither printed.

234. Memorandum From the President's Special Assistant for National Security Affairs (Anderson) to the President[1]

Washington, August 10, 1956.

SUBJECT

Oil Production in Mexico

At yesterday's Council meeting, I was astonished to learn that someone had given you an estimate that oil production in the Republic of Mexico could be increased by a million barrels a day—presumably within a period of time that would have a bearing upon the Middle East crisis. From some knowledge of the subject, I felt certain that these figures were so far out of line as to be almost ridiculous, and I mentioned this fact to Arthur Flemming after the meeting. I told him I believed we could obtain an accurate estimate on the subject very promptly from DeGolyer, an outstanding world authority on oil reserves, with a unique knowledge about Mexican reserves and production potentials. He asked me to call DeGolyer and get his views, which I did. The facts according to DeGolyer are:

(1) The total present production in Mexico is around 250,000 barrels per day.

(2) Existing wells wide open would probably not produce more than an additional return of 250,000 barrels per day at the outside.

(3) The more probable limit on the increase now possible would be an additional 100,000 barrels, and this for only a short period of time.

[1] Source: Eisenhower Library, Whitman File, Administration Series, Anderson, Dillon. Secret.

(4) There are no known undeveloped fields which even with additional drilling show promise of more than doubling Mexico's present potential, and this would take years.[2]

Dillon Anderson

[2] A handwritten note on the source text indicates that Anderson showed this memorandum to the President on August 10.

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235. Memorandum of a Conversation, Department of State, Washington, August 14, 1956, 4 p.m.[1]

PARTICIPANTS

His Excellency Señor Don Manuel Tello, Ambassador of Mexico
Assistant Secretary Henry F. Holland
Mrs. Ruth Mason Hughes, Officer in Charge, Mexican Affairs

The Ambassador of Mexico called on Mr. Holland at four o'clock today and referred to the statement made by Senator Lyndon Johnson concerning a proposal to appropriate $6 million for the construction of three Coast Guard patrol vessels for activities in the Gulf of Mexico in relation to the protection of United States fishing vessels. He handed Mr. Holland an excerpt from the Congressional Record of July 25 (Tab A)[2] together with a copy of the Conference Report No. 2941 of the House of Representatives of July 26, 1956 (Tab B).

The Ambassador said that as Mr. Holland knew, the President of Mexico would make his annual report to the Congress on September 1 at which time he would refer to the excellent relations between the United States and Mexico, the White Sulphur Springs Conference and the Panama Conference.[3] He said also that General Maxwell Taylor, Chief of Staff of the United States Army will visit Mexico for the Independence Day festivities September 15–16 as the guest of the Mexican Minister of Defense.[4] His Government was most anxious that nothing embarrassing should occur during the

[1] Source: Department of State, Central Files, 611.126/8–1456. Confidential. Drafted by Hughes.

[2] None of the tabs is printed.

[3] For documentation on the meeting of the Presidents of the American Republics in Panamá, July 21–22, see Documents 109 ff.

[4] General Matías Ramos.

month of September. He felt that with United States Coast Guard vessels patrolling the waters of the Gulf of Mexico there was the possibility that the newspapers might carry an unpleasant story at the very time the President was informing the Congress and the Nation of the friendly relations existing between the two countries. He was therefore under instructions of his Government to propose to the United States Government that the Coast Guard vessels be withdrawn from patrolling activities incidental to the protection of the United States fishing fleet until the end of September with the understanding that there will be no "danger to personnel and equipment of the shrimp industry in the Gulf of Mexico waters" during this period of time. Mr. Holland informed the Ambassador that he would look into the proposal and inform him of this Government's decision at the earliest possible moment. The Ambassador then handed Mr. Holland the attached card (Tab C).

A discussion of how this troublesome problem might be settled followed. The Ambassador suggested that when a vessel is seized a buoy be put down to mark the spot, and that an airplane or a vessel equipped to determine the exact distance from the shore be called to verify the location. If the distance should be determined to be outside the nine mile limit the fishing boat would then be released. He said this would eliminate the charges that boats were being seized outside the nine mile limit and relieve some of the unpleasantness.

Mr. Holland said he would also explore the possibilities of this proposal.

236. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Under Secretary of State (Hoover)[1]

Washington, September 6, 1956.

SUBJECT

U.S. Policy on Loans to Mexico—Proposed National Railways Credit

Discussion:

Ambassador White has been strongly recommending that conditions similar to those applied by the IBRD for a loan to the Pacific Railway be now applied to the proposed Export-Import Bank loan of $23.26 million to the National Railways. President Ruiz Cortines and Finance Minister Carrillo Flores have indicated they consider the Pacific Railway conditions sound and reasonable, and that they could be advantageously applied to the National Railways. Under Secretary of the Treasury Burgess expressed to Ambassador White agreement on this point.

A statement from the Bank, addressed to the National Railways, reciting the conditions under which a loan could be made, would permit the Ambassador to use the National Railways loan as a bargaining point in his efforts to get a satisfactory air agreement. Mr. Waugh last week in a meeting with Messrs. Holland and Corbett declined to establish such conditions for the National Railways loan, contending that the Bank believed other conditions were more appropriate for the National Railways situation.

In these circumstances the Department asked whether in the Ambassador's view we should now use the only remaining lever to obtain an air agreement expeditiously, to wit, issuance of a Show Cause order. The Ambassador replied that issuance of a Show Cause order now would be too drastic and extremely harmful to United States-Mexican relations, without insuring conclusion of an air agreement with which we agree. Instead, the Ambassador again urges the imposition of full conditions for all phases of the proposed Railways loan, and the withholding of the loan until the conclusion of a satisfactory air agreement.

Recommendation:

1. That no action in regard to a Show Cause order be taken at this time.

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[1] Source: Department of State, Central Files, 912.712/9–657. Secret.

2. In order to strengthen the Ambassador's negotiating position in the matter of an air agreement that,

(a) recognizing that the Export-Import Bank is continuing to withhold the National Railways loan, you review with Mr. Waugh the desirability of imposing on the National Railways loan conditions analagous to those imposed on the Pacific Railway; and, if failing in this course,

(b) that consideration be given to referral of the problem to the President personally for a decision.[2]

[2] Hoover initialed his approval of this recommendation on September 6. A handwritten notation on the source text reads: "Subject to Amb. White's concurrence after a scheduled meeting in Washington with the Treasury and Exim Bank."

237. Memorandum for the Record, Prepared in the Office of Transport and Communications of the Department of State[1]

Washington, October 3, 1956.

SUBJECT

Summary of United States-Mexican Negotiations on Air Transport

Negotiations for an air transport agreement between the United States and Mexico were begun in December 1945. Despite frequent formal negotiations, some in Mexico and some in Washington, and continuing informal efforts by the United States Embassy in Mexico City to conclude such an agreement until the compromise which now offers hope of success, differences in principle between the two Governments prevented conclusion of an agreement. The Mexican principles were based upon protection of Mexican airlines, to be achieved through exclusive operating rights on certain key routes, or through division of traffic between Mexican and United States airlines serving the same routes. The United States, on the other hand, aspired to an agreement in which there would be reciprocal rights for the carriers of both countries to operate on all the

[1] Source: Department of State, Central Files, 611.1294/10–356. Confidential. Transmitted to Under Secretary Hoover under cover of a memorandum dated October 4, from Acting Assistant Secretary Rubottom. Rubottom's memorandum notes that this memorandum was prepared in the Aviation Division of TRC and was concurred in by ARA. Hoover initialed his approval on November 19.

principal routes without any artificial traffic restrictions or divisions of traffic.

Throughout the negotiations there have been pressures on the Department and the Civil Aeronautics Board from both governmental and non-governmental sources. Governmental sources have been mainly Senators and Representatives from the Southern States, the West and Northwest and, more recently, from the area which would be served by a through non-stop New York–Mexico City service. These Congressmen have been influenced to a great extent by airlines desiring to serve one of the following routes: New York–Mexico City; New Orleans–Mexico City; or Los Angeles–Mexico City. The Congressmen have also been influenced to a great extent by Chamber of Commerce activities in the traffic areas served by the three United States terminals just mentioned.

The airlines certificated by the Civil Aeronautics Board in its 1946 Latin America Route Decision have made frequent direct approaches to the Department and to the Civil Aeronautics Board for action to permit implementation of their routes. These airlines are American (New York–Mexico City); Eastern (New Orleans–Mexico City); and Western (Los Angeles–Mexico City). Eastern has been far the most vigorous in its campaign.

Within the last year or two Chambers of Commerce in the Northeastern part of the United States, the Southern area, and the West Coast and Northwestern part of the United States have written directly to the Department and the Civil Aeronautics Board, passed resolutions and urged Congressional support for action to provide United States airlines services to their respective territories.

The agreement which, it now appears, may finally be concluded differs from the standard form United States air transport agreement primarily in the following respects:

(1) It is to be achieved through an exchange of notes which establishes the routes to be served and the period of effectiveness of the agreement to which is attached an appendix containing the principles normally contained in the standard United States form air transport agreement, rather than through an agreement containing the principles in the body and the routes in an attached route schedule.

(2) The exchange of notes provides that if either party gives notice, prior to November 15, 1957 of dissatisfaction with the agreement, said agreement shall terminate effective December 31, 1957 by mutual consent, unless the parties agree to its extension, rather than the indefinite duration of a standard agreement, with provision for termination.

(3) An independent and informal letter from the United States Ambassador to the Mexican Minister for Foreign Relations will provide that until December 31, 1957 the United States airline Pan American Airways will continue its present practice of stopping at

Guatemala City on its route Houston–Brownsville–Tampico–Mexico City–Tapachula and beyond to Guatemala and beyond.

(4) In a conversation on September 27, 1956 the Under Secretary of State told the Mexican Minister of Finance that, should the agreement not enter into force within a reasonably short time or if it were terminated at the end of one year, the United States would have no alternative but to take the steps necessary to terminate all services by Mexican airlines into the United States.

While the form of agreement which appears about to be concluded is not completely in accordance with the standard form adopted by the United States, and while the United States had hoped for an agreement of indefinite duration, nevertheless the principles embodied in the agreement are those normally included in air transport agreements negotiated by the United States and neither the form nor the short period of duration are believed to be inconsistent with either the objectives of the United States or its previous positions. It may be noted that since the principles and the route exchanges are consistent with the objectives of the United States, the change in form is not of a nature to cause difficulties. The one year duration of the agreement is disappointing but it should be noted that in the standard form agreement negotiated by the United States there is provision for termination by either party, such termination to become effective at the expiration of one year after notice of denunciation.

The statement that Pan American Airways will stop at Guatemala on its flights South of Mexico City on one route provides for a continuation for a limited time of a practice already adopted by the airline.

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238. Editorial Note

In a memorandum to Under Secretary Hoover dated October 4, Acting Assistant Secretary Rubottom wrote: "In our last discussion regarding US loan policy toward Mexico, you agreed that we would not attempt to exact the Pacific Railway loan conditions, as imposed by the World Bank on Mexico, as the sine qua non of the Export Import Bank loan to the National Railways." Rubottom noted further: "At a meeting this morning with Mr. Waugh attended by Jack Corbett and myself, we discussed this problem again and the Bank officials explained clearly that Minister Carrillo Flores had stated to them that it would be impossible for the Pacific Railway conditions

to be applied to the National Railways. Nevertheless, they expect to be able to negotiate reasonably satisfactory conditions with the National Railways which will be acceptable to Mexico." (Department of State, Central Files, 912.712/10–456) Telegram 678 to Mexico City, October 4, reads in part: "At Departmental-Eximbank meeting today Eximbank indicated would give Tello notice of intention to approve National Railways loan. Before doing so however wished to let Department know that conditions recommended by Embassy could not in Bank's judgment be applied to this loan." (*Ibid.*)

Telegram 738 to Mexico City, October 12, informed the Embassy that the Export-Import Bank had approved the loan to the National Railways on October 11. (*Ibid.*, 912.712/10–1256) In telegram 825 to Mexico City, October 22, 1956, the Department transmitted the text of a press release which stated that the Export-Import Bank had authorized credit of $23,260,000 to Mexico for rehabilitation of the National Railways. (*Ibid.*, 912.712/10–2256) For text of this press release, see Department of State *Bulletin*, November 26, 1956, page 846.

239. Memorandum of a Conversation, Department of State, Washington, November 29, 1956[1]

SUBJECT

United States-Mexican Aviation Agreement

PARTICIPANTS

The Acting Secretary, Mr. Hoover
Ambassador Manuel Tello
ARA—Mr. Rubottom

Following greetings and an inquiry by the Ambassador regarding the health of Secretary Dulles, the Ambassador announced that he had requested the appointment in order to deliver, under instructions from his Government, a copy of the note regarding the proposed Aviation Agreement which had been handed to Ambassador White in Mexico City last Saturday. The Ambassador stated that he had been following this subject for the past 10 years and that he believed this represented a real "break through", and that their proposal constituted the "first step" in what he was certain could be a long-term solution. He added that he knew President Ruiz Cortines had achieved agreement within his Government, in accordance with the terms of the note, only after great effort, and that he felt it was a very constructive proposal.

The Acting Secretary replied that he wished to speak frankly with the Ambassador regarding his own disappointment that the Mexican proposal seemed to set the clock back 10 years and almost to ignore the understandings which he thought had been informally agreed to on September 29 by Finance Minister Carillo Flores and himself.[2] The Acting Secretary noted specifically the main points which were at variance with the last U.S. proposal—(1) the restriction to one airline on each route, (2) the reversion to the status quo on the expiration of the agreement, and (3) the omission of our draft annex thus apparently making no provision covering what we had

[1] Source: Department of State, Central Files, 611.1294/11–2956. Confidential. Drafted by Rubottom. In a memorandum to Hoover dated November 27, Rubottom wrote that Ambassador Tello had telephoned three times that day to request a meeting with the Acting Secretary. Hoover approved Rubottom's recommendation that he receive the Mexican Ambassador. (*Ibid.*, 611.1294/11–2756) In a memorandum to Hoover dated November 28, Rubottom recommended that the Acting Secretary express to Ambassador Tello "surprise and concern that the agreement reached during your conversations with Mr. Carrillo Flores, which you were led to believe had the blessing of President Ruiz Cortines, have apparently been disregarded in the preparation of the Mexican counter-proposal which in effect reflects the status of our negotiations 10 years ago." (*Ibid.*, 611.1294/11–2856)

[2] Not further identified, but see footnote 1 above.

understood to be mutually acceptable principles governing operations.

The Ambassador undertook to defend the Mexican proposal, pointing out that the "status quo" really had no significance since the United States could institute proceedings to terminate Mexican airline operations at any time it actually wanted to do so, once the agreement ceased. He stated that United States and Mexican airlines had been operating in each other's country for the last 20–25 years and that their proposal to make applicable each Government's respective laws should be adequate by virtue of the precedent already established. The only difficulty he foresaw was to objection no. (1) above, since he doubted that Mexican Airlines would ever go along with their Government's approving an agreement which might permit more than one airline to operate a route.

Mr. Rubottom expounded on the history of the United States-Mexican negotiations which had led to the belief that virtual agreement had been reached on the operating plans incorporated in the annex to our draft note handed to Carillo Flores on September 29. He declared that the United States had made several important concessions to Mexico down through the years in negotiations but that it had to hold firm to certain principles regarding civil aviation policy to the application of which it was dedicated all over the world.

The Acting Secretary pointed out that, as far as the United States is concerned, the record showed that the CAB had been very careful in the granting of route certificates to airlines, always taking into account load factors, traffic potential, et cetera. To the Ambassador's statement that Mexican Airlines simply did not have the capital to compete with U.S. airlines, Mr. Hoover noted that Mexican Airlines in recent years had expanded their operations tremendously and seemed to be able to buy all the equipment they needed.

The Acting Secretary then read to Ambassador Tello the memorandum of record which was agreed to by himself and Finance Minister Carillo Flores on September 29, pointing out that the latter had taken a copy with him to Mexico along with a copy of our draft note with annex. The Ambassador seemed stunned by the language of the memorandum to which Carillo Flores had agreed, observing somewhat lamely that he had not been aware of the extent of Carillo Flores' undertaking and that he had not known of the memorandum. He terminated his call by saying he would report immediately to his Government regarding his conversation with the Acting Secretary.

240. Editorial Note

A bilateral agreement regulating civil aviation relations between Mexico and the United States was concluded on March 7, 1957, through an exchange of notes by Ambassador White and Foreign Minister Padilla Nervo in Mexico City. The agreement entered into force on June 5, 1957. For text, see 3 UST (pt. 1) 295.

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241. Memorandum From the Secretary of State to the President[1]

Washington, March 19, 1957.

SUBJECT

Reported French Loan for Mexican Petroleum Development

Some days ago you inquired about this "PEMEX" loan problem and notably whether the French in their present financial condition could afford this financial venture. I have delayed response in order to get the current views of our Paris Embassy.

Petroleos Mexicanos, S.A., the Mexican Government petroleum monopoly, was reported to have accepted a $50 million loan from the Credit Lyonnais and a group of French banks. According to the Director General of PEMEX, Senator Antonio Bermudez, he and the President of Mexico agreed to accept the loan for a period of seven years, at five percent interest, 60 percent of the proceeds to be used to purchase material and equipment in France, or, when satisfactory French purchases could not be made, in the United States. Senator Bermudez expressed the opinion the greater part of the loan would be spent in the United States.

After consultation with the French Ministry of Finance, which in turn consulted the Credit Lyonnais, our Embassy at Paris has reported that no plans for such a French loan to Mexico are under consideration. In view of the present payments difficulties of France, the Ministry indicated that it would, before approving such a loan, scrutinize carefully any agreement containing a clause permitting the borrower to use proceeds to make purchases in the United States rather than in France.

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[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Official Use Only.

These conflicting reports seem to point to an effort on the part of Mexican authorities to stimulate a review of United States policy with regard to public loans for projects for which private capital is obtainable on reasonable terms. I believe our policy against such loans is sound and should be continued.[2]

JFD

[2] A handwritten note on the source text by Andrew J. Goodpaster, the President's Staff Secretary, reads: "President indicated agreement. State notified. G."

242. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Assistant Secretary of State for Economic Affairs (Kalijarvi)[1]

Washington, April 30, 1957.

SUBJECT

Mexico's interest in acquiring corn under PL–480

Although the Mexican Government, until recently, has shown no interest in concluding any sort of agreement with the United States for the acquisition of commodities under the provisions of PL–480, during March of this year the Mexican Minister of Agriculture indicated to our Agricultural Attaché[2] at Mexico City that Mexico wished to acquire some 500,000 tons of corn under PL–480. A response to this inquiry was developed in consultation between E, ARA and Agriculture, pointing out to the Embassy for the information of the Minister of Agriculture[3] that Title I funds were in very short supply and that there existed a heavy backlog of requests from countries with more serious foreign exchange problems making favorable consideration of Mexico's request unlikely.

The initial approach of the Mexican Minister of Agriculture was followed by an approach to our Ambassador made by the Mexican Minister of Finance early in April, on behalf of President Ruiz Cortines. The Minister of Finance explained fully Mexico's need to acquire a reserve stock of corn on credit facilities permitting repay-

[1] Source: Department of State, Central Files, 411.1241/4–3057. Confidential. Drafted by Crockett.

[2] William G. Lodwick.

[3] Gilberto Flores Muñoz.

ment over a period of twenty years at low interest. In view of the several obstacles to conclusion of a PL–480 agreement with Mexico, other possible methods of meeting this request have been explored informally, but with negative results. In the meantime, it has become evident that Mexico has a very real interest in concluding a PL–480 agreement as soon as possible. The most recent approach is described in the attached memorandum of my conversation with Mexican Ambassador Tello and Mr. Rodriguez Adame during luncheon yesterday.[4]

While I have pointed out the problems that must be faced in considering a PL–480 sale of corn to Mexico, I am satisfied that the Mexican Government will continue to press for conclusion of an agreement and seek every opportunity to advance its case. At the same time, I believe that it would be in the best interests of the United States to accede to Mexico's request and strongly recommend that steps to this end be taken as soon as possible.

Under the circumstances, I hope that you will find it possible to agree with me that the request should be placed before the Inter-Agency Staff Committee for consideration with a favorable recommendation from State at as early a date as possible.

[4] Not attached and not found in Department of State files.

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243. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, May 3, 1957.

SUBJECT

Mexico's Desire to Purchase Military Equipment under the Reimbursable Aid Program

As you requested, developments in this matter are summarized below:

January 30, 1957: Mexican Minister Sanchez Gavito and Military Attaché Guzman Cardenas called on me to state that Mexico was interested in obtaining an unspecified quantity of military equipment

[1] Source: Department of State, Central Files, 712.5–MSP/5–357. Secret. Drafted by Crockett.

but considered the normal three year credit facilities offered as inadequate. At their request, I promised that the Department would see if any way could be found to provide more favorable credit facilities, pointing out that our policy in this respect was to limit credit to three years.

March 19, 1957: Ambassador Tello called to inform me Mexico had decided that a three year credit would be adequate. The Ambassador offered to furnish a list of Mexico's requirements in order that necessary authorization could be sought.

March 26, 1957: The list promised by Ambassador Tello was received and found to be identical with one that had been priced at Mexico's request in 1955. Value of equipment desired was $10.5 million at that time.

April 2, 1957: The Department notified Assistant Secretary Sprague by letter over Mr. Barnes' signature that it would be in the best interests of the United States to make the equipment available and requested Defense concurrence in recommending the transaction to ICA.

May 1, 1957: Oral notification was received that Defense had concurred in the project and recommended financing of the transaction by MDAP funds to ICA. ICA was contacted and stated that the project was to be submitted to the NAC for consideration before Mr. Hollister would make a final decision.

In view of our long-term objective of getting Mexico to take a more responsible attitude towards defense arrangements with the United States and to participate more fully in the defense of the Hemisphere, I am confident the NAC will report favorably on the project once it has been submitted for consideration.[2]

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[2] According to a memorandum from Crockett to Rubottom dated June 11, a $10 million credit was established for purchase of military equipment by Mexico. The memorandum indicated further that the Mexican Government had notified the Department of State that it planned to use $6 million of the credit. (*Ibid.*, 712.56/6–1157)

244. Memorandum of a Conversation, American Embassy, Mexico City, August 6, 1957[1]

SUBJECT

Conversation with Minister of Finance

PARTICIPANTS

Minister of Finance Antonio Carrillo Flores,
Roy R. Rubottom, Assistant Secretary of State, and
Elmer H. Bourgerie, Economic Counselor of Embassy.

During the course of a conversation with Minister Antonio Carrillo Flores the following points were discussed:

1. Buenos Aires Economic Conference.

Mr. Rubottom told the Minister that he was pleased with the announcement last week that the latter would head the Mexican Delegation to Buenos Aires.[2] He said that the exchange of views by the Minister and Messrs. Bourgerie and Ordway of the Embassy on the subject matter for the conference had been very useful and had helped to clarify the United States approach to several of the more knotty problems which were certain to arise in Buenos Aires. Mr. Rubottom said that the United States had literally "laid its cards on the table" far in advance of the conference in order to erase any possibility of a misunderstanding as to our attitude regarding the agenda, especially the draft Inter-American Economic Agreement, which was a complex document that seemed to pay lip service to almost every point of view that had been expressed on economic subjects by the various American States during the past ten or fifteen years. Mr. Rubottom said that the United States had been encouraged by the apparently similar approaches taken by Brazil, Peru and more recently Uruguay, although he had seen only a very preliminary report of the latter country's position, which, along with the very practical approach being taken by Mexico, should lessen the area of disagreement and speed up the work of the conference.

The Minister said that his consultation with the Embassy had been most productive from the Mexican standpoint and that except for the obvious problem of treatment of foreign investment, and possibly the subject of terms of trade, there should be very little

[1] Source: Department of State, Central Files, 362/8–657. Confidential. Drafted by Rubottom. A secret annex on the disputed Sabalo claim attached to the source text is not printed.

[2] The Economic Conference of the Organization of American States met at Buenos Aires, Argentina, August 15–September 4; for documentation, see Documents 135 ff.

difficulty between Mexico and the United States. He hoped that a debate on treatment of foreign investment, such as occurred in Bogota in 1948[3] could be avoided, and with this point Mr. Rubottom agreed. The Minister expressed understanding and sympathy for the United States position on terms of trade, but went on to say that there was equal validity with the Latin American viewpoint and that he hoped that within the next decade, more or less, something could be done to cushion the effects of the violent market fluctuations of such Latin American export products as cotton, lead and zinc, etc.

The Minister recalled that the attitude which prevailed at the Chapultepec Conference in Mexico City in 1945[4] was the most statesmanlike of any conference which he had attended over the past twelve years and he wished that that spirit could be recaptured in Buenos Aires. Mr. Rubottom shared this hope but pointed out that Chapultepec had reached that high tone by virtue of the war-time emergency which then prevailed and which seemed always to drive men to nobler accomplishments than when they were operating under more normal circumstances. The Minister expressed the hope also that the United States could make some dramatic move, even if it had more psychological impact than real, at Buenos Aires, and recalled the favorable impression created at Bogota in 1948 when General Marshall announced that a five hundred million dollar "line of credit" had been earmarked in the Export Import Bank for Latin America.

2. Lead and Zinc.

Mr. Rubottom explained the problem facing the Administration in the United States in view of the strong position being taken by the Congress as a result of the adverse effects of the weak metals market in the mineral-producing states. The Minister acknowledged the United States problem, but said it was inconceivable that the United States would take final action to place an excise tax on lead and zinc prior to the Buenos Aires Economic Conference. Such action, he said, would be like a slap in the face to virtually all of Latin America. Mr. Rubottom said that he was not sure about the timing of the measure but that he assumed some action would be taken by the Congress and that the Administration's recommenda-

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[3] The Ninth International Conference of American States was held at Bogotá, Colombia, March 30–May 2, 1948. For documentation on U.S. participation in this conference, see *Foreign Relations*, 1948, vol. IX, pp. 1–72. The Charter of the Organization of American States was signed at Bogotá on April 30, 1948. For text, see 2 UST (pt. 2) 394.

[4] The Inter-American Conference on Problems of War and Peace, commonly called the Chapultepec Conference, was held at Mexico City, February 21–March 8, 1945. For documentation, see *Foreign Relations*, 1945, vol. IX, pp. 1–153.

tions had been calculated to prevent possibly more stringent action by the Congress.

3. PL 480 Agreement for Corn.

Mr. Rubottom told the Minister of the lengthy discussions which had been held in Washington on this subject and of the serious opposition which existed in several quarters there by virtue of Mexico's relatively strong reserve position and the tremendous demand for PL 480 commodities from countries which seemed to be more eligible than Mexico for such agreements. The Minister said that the International Monetary Fund's studies showed that Mexico's financial reserves were hardly as much as should be required under a program of prudent management and that, furthermore, Mexico had serious need for the corn. He said that the Government also was looking forward to using as a loan part of the proceeds of the sale for certain public works projects, like port improvements, which neither one of the international banks liked to finance, and that the President was looking forward to announcing that agreement in principle had been reached, at least, in his September 1 message to the Congress and the people of Mexico.

Mr. Rubottom said that he had always insisted that Mexico be made fully aware of the terms and conditions of sales under PL 480. Mexico might even find it more convenient to buy corn in the open dollar market or under CCC three-year credit terms. He asked the Minister whether Mexico realized that the United States would expect repayment in dollars rather than local currency, and the answer was affirmative. He inquired of the Minister whether Mexico was prepared to have the various loan projects scrutinized by ICA and other agencies of the United States prior to approval; the Minister's reply was again affirmative, with the statement that Mexico was accustomed to this treatment by the Export Import Bank and World Bank and that he assumed that projects for Mexican Light and Power and American and Foreign Power might qualify. Mr. Rubottom next asked whether the Minister realized that the United States wanted to keep thirty per cent of the proceeds for its own use, which with twenty-five per cent to go to the private enterprise sector as likely to be required under the amended law, would leave Mexico only forty-five per cent for its public works program. Here the Minister showed surprise and asked why the United States would need thirty per cent, acknowledging that Mexico had expected to be loaned seventy-five per cent of the proceeds.

The net result of the discussion, however, was that the two Governments could probably arrive at agreement if, as and when negotiations for a PL 480 Agreement can be undertaken. Mr. Rubottom also told the Minister that the United States would expect to

negotiate the sales and loan agreements simultaneously, if a decision should be made to proceed with the negotiations. Mr. Rubottom made it clear that he was unable to offer any real encouragement to the Minister as to the prospects of offering a PL 480 Agreement to Mexico, but added that he felt it was necessary to clarify as many of the terms and conditions as possible in order to avoid any misunderstanding later, should actual negotiations be authorized.

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245. National Intelligence Estimate[1]

NIE 81–57 *Washington, August 13, 1957.*

THE OUTLOOK FOR MEXICO[2]

The Problem

To estimate the situation and probable developments in Mexico over the next few years.

Summary and Conclusions

1. Unlike most states in Latin America, Mexico has in recent years developed a reassuring degree of political maturity and economic viability. Organized along federal lines, the country is in fact run by an administration which is highly centralized and controlled by a president elected under virtually a one-party system. The party is organized in such a way as to be responsive to most of the important groups in the country. In addition, it has gained wide support through a moderately progressive program of economic and social improvement.

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[1] Source: Department of State, INR–NIE Files. Secret. National Intelligence Estimates (NIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the Central Intelligence Agency (CIA), approved by the IAC, and circulated under the aegis of the CIA to the President, appropriate officers of cabinet level, and the National Security Council. The Department of State provided all political and some economic sections of NIEs.

[2] According to a note on the cover sheet, the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff participated in the preparation of this estimate. All members of the Intelligence Advisory Committee concurred in this estimate on August 13.

2. The political outlook is one of continuing stability and moderation. This pattern is supported by the small but rapidly growing middle class which is exerting increased political influence. Although there is still strong contrast between the poverty of the majority and the wealth of the few, labor has so far accommodated itself to the government's program of balanced economic development. The army, which does not play an active role in politics, accepts the constitutional processes. National elections are scheduled for July 1958, when the presidential candidate selected by the incumbent (Ruiz Cortines), in consultation with the two ex-presidents (Aleman and Cardenas), is virtually certain to be elected.

3. The economic outlook is also good. Minerals continue to be an important export, but in recent years the increase in the export of cotton and coffee is especially noteworthy. In 1956, the latter accounted respectively for 45 percent and 15 percent of total exports. The bulk of Mexico's foreign trade is with the US. In the last few years tourism has made up the deficit in Mexico's balance of payments.

4. The Mexican government adopts a tolerant attitude toward Communism. This toleration, which in large part reflects the combination of liberalism and Marxist socialism of the Mexican Revolution, would probably change if Communism became a serious internal threat. While Bloc activities in Mexico are on the increase, the local Communist movement is only a negligible factor in the country's political life.

5. Mexico supports the idea of hemisphere defense. However, unless Mexico considered that its national security were threatened, it probably would not agree to the use of its territory by US forces.

6. Mexico will face certain economic and political problems during the next few years:

a. In the economic field Mexico will have to contain incipient inflationary pressures. It may have difficulty in securing a continuing ready market for Mexican exports. A rapidly increasing population will probably strain Mexico's resources.

b. Mexico is a haven for Latin American exiles and a principal center of Bloc activities in Latin America. Its tolerant attitude toward this situation will probably cause friction with other countries in the hemisphere.

c. While Mexico will remain generally cooperative with the US, there are certain sources of irritation between the two countries. The most important of these arise out of the seizure of US vessels fishing in waters claimed by Mexico, the proposed increased in US import duties on Mexican minerals, and the migration of Mexican agricultural laborers for temporary employment in the US.

Discussion

Introduction

7. Politically and economically, Mexico is one of the most mature countries in Latin America. About one-fourth the size of the continental US, it is the third largest country in Latin America, ranking after Brazil and Argentina; it is second in population (over 31 million). Mexico's economy is rapidly becoming diversified. Manufacturing is now joining agriculture and the extractive industries, the hitherto traditional bases of the economy. About half of the country's inhabitants now live in urban centers. The country has natural resources of power, minerals, and timber, but economic development is handicapped by climatic conditions, rugged topography, and a limited amount of arable land. As in all semideveloped countries, there is also a lack of adequate capital and effective human resources, although Mexico is more favored in these respects than most other Latin American countries. The population is growing at the rate of about three percent per annum. It consists mainly of mestizos and Indians, is about 50 percent illiterate, and is in poor health generally. While there is a rapidly growing middle class, there is still a strong contrast between the poverty of the majority and the wealth of the few.

8. Mexico's history in the 20th century has been marked by profound changes in the political, economic, and social structure of the country brought on by the "Mexican Revolution." This revolution, which began with the overthrow in 1911 of the 34-year dictatorship of Diaz, originated in popular resentment against domination and exploitation by an elite minority of politicians, army officers, landowners, financiers, and ecclesiastics. Fomented by intellectuals, the revolution focused on improving the lot of the lower class and the rapidly rising middle class. In ideology, it combined elements of socialist, including Marxist, and traditionally liberal concepts; it was strongly nationalistic and secular. Revolutionary leaders envisaged the curtailment of foreign interests, freedom from dependence on foreign capital and markets, the growth of native industry, and agricultural self-sufficiency. They also exalted the Indian heritage and sought the material and cultural improvement of the Indian and his incorporation into national life. Moreover, they were determined to reduce the role of the church and to eliminate illiteracy.

9. Political and social ferment continued for a decade after the overthrow of Diaz as the old order fought reform and the revolutionaries fought among themselves. During the twenties and early thirties, the power of the revolutionary regimes rested upon colorful and autocratic military presidents and the army. Erratic progress was

made toward reform until the administration of Lazaro Cardenas in 1934, when the impulse of the revolution reached its peak. Cardenas made the first extensive effort to implement socioeconomic reforms embodied in the 1917 Constitution. The role of government in the economic life of the country was expanded rapidly; the petroleum industry and most of the railroads were nationalized. Considerable progress was made in agrarian reform as many large estates were broken up into small individual farms and communal or collective holdings. Urban labor, organized under official auspices, gained substantial increases in material benefits and political power. The revolutionary educational program was intensified and the modus vivendi with the church, whose political and social position had been successfully attacked by the revolution, was broadened.

10. Although all Mexican political leaders feel compelled to profess adherence to the "Mexican Revolution," the aggressive and combative phases of the revolution ended with Cardenas' term in 1940. Revolutionary ideals are still loudly proclaimed, but the pace of social welfare programs has been slowed in order to expand the industrial plant, to increase production, and to check inflation. The government and certain business interests have encouraged domestic, and, to some extent, foreign capital to enter industrial and commercial enterprises. Mexicans have become increasingly receptive to US policies designed to reduce tensions between the two countries, and anti-Yankee sentiment has somewhat abated.

Political Trends

11. *Predominant political groups.* The political life of Mexico has for several decades been characterized by one-party rule, executive dominance, and a government which, though federal, is highly centralized. The dominant political party, founded in 1929 and dedicated to the principles of the 1911 revolution, is now known as the Institutional Revolutionary Party (PRI). Although far from democratic in operation, the party has been demonstrably representative of, and responsive to, the needs and wishes of most social and economic groups. The extremely efficient party machine is organized on a functional basis both nationally and at the regional level. This functional structure comprises three organizational sectors: an agrarian, a labor, and a so-called popular group that includes the government bureaucracy, the professional classes, intellectuals, small businessmen. Leaders of these sectors play important roles in the determination of party and, to some extent, government policy.

12. It is now established that the president, as supreme executive of the nation and leader of the PRI, is the most powerful political figure in the country. Although ineligible for another term, he has the strongest voice in naming his successor, whose selection

is arranged through close executive consultation with PRI leaders, especially those ex-presidents who are still national political powers (Cardenas and Aleman). The president must be responsive to the ideology of the revolution and the interests of power groups within the government, the party, and the nation, but he has the power and responsibility to make major policy decisions. The role of congress is for the most part reduced to the formality of approving the president's program. The federal courts generally do not interfere with the executive's will on major problems of national policy. Some state governors are the president's men, and local political bosses must in practice conform to basic federal and party policy.

13. Unlike most of its Latin American counterparts, the Mexican army has in the past 20 years experienced a considerable decline in political influence as an organization. It is a professional corps whose mission includes the maintenance of internal peace and the defense of constitutional authority.[3] The army as such does not now take an active role in politics. Nevertheless, military leaders of revolutionary background occupy important government posts, including that of Secretary of Defense. Some individual officers exert influence in the PRI both as party members and through association with leading politicians. PRI leadership, aware of the latent power of the army, probably would not select a presidential candidate not acceptable to the military.

14. Along with the decline of the role of the army in politics, there has been a gradual shift in the relative influence of the various economic and social groups who support the party. The demagogues, extremists, and revolutionary political generals who dominated until the late thirties have lost most of their power; the agrarian elements never were important, and urban labor leaders have tended to support the more moderate orientation of the government. Lawyers and civil servants have become increasingly powerful. The business community is growing in influence; it has received some encouragement from recent presidents and has come to accept, at least to some extent, the social and economic principles of the revolution. Despite competition from other groups, urban labor still plays a major role in party policy. The relations between government and labor are extremely close; aspirants to political leadership can expect little success if they are opposed by labor.

15. *Rightist opposition.* The only opposition party of any importance is the National Action Party (PAN), whose chances of winning a presidential election are practically nil. With its program of conservative economic, political, and religious principles, it appeals largely to upper-class Catholics and to certain business interests. It

[3] See Appendix on Armed Forces Capabilities. [Footnote in the source text.]

has little nationwide popular following. However, in an election free from PRI manipulation, the PAN might win a sizable minority in the federal legislature and gain control of several state governorships and legislatures.

16. *Communism.* In Mexico Communism operates in a climate of toleration which stems in large part from the mixture of democratic liberalism and Marxist socialism inherited from the revolution. This toleration extends to the international operations of Communism; Mexico is one of the most important centers of administration, propaganda, and liaison for international Communism in Latin America. The local Communist movement presently is a negligible factor in the political life of the country. However, it probably would become an influential factor under conditions of grave economic and social deterioration which would check the growing force of the middle class and reverse present trends toward moderation in class relations. The local Communists have some capabilities for embarrassing the government, arousing ultranationalist sentiments, provoking public disturbances, and effecting sabotage. They have no prospect of seizing power by a coup or of gaining control through democratic procedure. Communists have obtained positions in various government ministries, notably those of education and foreign affairs, but the extent of their influence is difficult to assess. It is apparent, however, that they have been unable to arrest the orientation of Mexico's policies, which have become increasingly moderate since 1940.

17. The Communists in Mexico are divided into three groups. The Communist Party of Mexico (PCM) numbers slightly under 4,000 members, while the splinter group, the Mexican Workers and Farmers Party, has about 1,000 members. The more influential People's Party (PP), a Communist front led by Vicente Lombardo Toledano, registered about 75,000 members for the 1958 presidential election. The PP has adherents in student and intellectual circles, primarily among teachers. It is in these categories that Communist influence is most observable. The greatest numerical Communist infiltration has been in labor and agrarian organizations, notably the organized farm workers, the electrical and petroleum workers, and the federal bureaucracy. This has been of slight consequence to the whole organized labor movement, which is dominated by the pro-government, anti-Communist Labor Unity Bloc. Communist propaganda organs in Mexico have increased in number, but only reach a small segment of the population. There are numerous front groups, a few of which are of considerable importance as centers of Communist operations.

18. All three parties are tied to the international Communist movement, although only the Communist Party of Mexico admits

fraternal bonds with the Communist Party of the Soviet Union. Lombardo Toledano, a frequent traveler to the Bloc, is a vice president of the World Federation of Trade Unions (WFTU) and president of its affiliate, the Communist Latin American Labor Confederation (CTAL), which has its headquarters in Mexico City. The Communist and pro-Communist organizations maintain active contacts with Communists elsewhere in Latin America, primarily in Central America and the Caribbean Republics, supplying them with propaganda, training, and travel support.

19. Mexico has no anti-Communist legislation nor a serious program to weed Communists from public office. Mexico is the only Latin American country which has failed to endorse the anti-Communist resolution adopted at the Inter-American Conference at Caracas in 1954. Since 1954 the administration has adopted a somewhat firmer attitude toward the two smaller parties and foreign Communists. On the other hand, the government tolerates within limits the People's Party probably as a counterbalance to the National Action Party, the party of the right, and as a factor contributing to the appearance of multiparty democracy in Mexico.

20. *Present government policies.* Government policy currently is dedicated to a methodical and unspectacular consolidation and extension of the revolutionary gains of previous years. President Ruiz Cortines—competent and honest, but colorless—better characterizes modern Mexico than does the *caudillo,* the demagogue, or the radical of the earlier period. Early in his regime, which began in 1952, Ruiz Cortines announced policies aimed at improved government operations and bureaucratic reform, but little has been accomplished. Graft in Mexican governmental agencies is a widely accepted institution. It remains a burden on the country's economic life, although it has been somewhat restrained in the higher government levels. Programs of health, social welfare, and education—identified with the revolution—are permitted only moderate expansion in order to hold down government expenses and dampen inflation. The social security system has been extended to a few rural areas, and the health program has been modest. The government has made impressive outlays for education, but has barely been able to keep pace with population growth: the literacy rate has not been significantly increased. In line with the administration's anti-inflationary policies, only modest wage increases and other benefits have been conceded to labor. Although the present government has slowed the pace of social reform, this has resulted in little popular dissatisfaction thus far.

21. *Domestic political outlook.* The outlook is one of continuing stability and moderation. The national elections, scheduled for July 1958, will intensify political maneuvering, but are unlikely to cause

serious and widespread unrest. Elections will be orderly and the constitutional succession of a new administration under PRI leadership is virtually certain. In the Senate and the Chamber of Deputies the PRI will assure itself an overwhelming majority, and allow a few seats to two or three opposition parties. There probably will be no major shift in policy away from the moderate course of the Ruiz Cortines government.

22. Labor and the business community are the most likely challenges to the status quo. Within the next two or three years labor may seek a greater share of Mexican prosperity through increased wages and other benefits, but it is unlikely that in the near future labor leadership will seriously embarrass the PRI by making extreme demands. The business community will persist in seeking to transform its growing economic power into political power, and probably will press for formal recognition as a sector in the PRI. However, labor and its allies within the party probably will be able to obstruct such a bid. Nevertheless, even without formal political recognition, business will continue exerting a growing influence upon the government.

Economic Trends

23. Mexico's economic growth since 1939 has been rapid. With the decline of internal conflict, the country was able to benefit from the general resurgence of economic activity during and after World War II. In the period 1948–1956, the volume of agricultural production rose 78 percent; manufacturing and petroleum, about 56 percent; and mining nearly 21 percent. In terms of constant 1950 prices, GNP between 1945 and 1955 grew from 3.7 billion to $6.2 billion, while on a per capita basis, it rose from $167 to $210. In 1956 GNP increased seven percent in terms of constant 1950 prices and on a per capita basis rose four percent. Agriculture contributed about 20 percent of Mexico's GNP; manufacturing, mining, and power industries, 23 percent; commerce, 29 percent; and transportation, service, and other activities, 28 percent. Moreover, problems arising from power and transport bottlenecks and other dislocations have been met more effectively than in other major Latin American countries.

24. Shifts in national economic policy have accompanied and contributed to this growth. Agrarian reform has lost its militant character, and the redistribution of lands, having proved economically disadvantageous, for the most part ceased after 1946. Since then, the government's agricultural policy has concentrated on increasing and balancing production. At the same time, the government has played an important role in the promotion of industrial growth. Increased government revenues generated by wartime prosperity permitted a considerable expansion in the productive base of the

economy. After World War II, the government devoted a larger share of its growing revenues to public investments in power and irrigation projects, rail and highway improvement, and petroleum production. In the decade 1945–1955, of total investment (about 14 percent of the GNP), 40 percent came from the government and various government agencies which own and control the petroleum industry, the highway and major railway systems, a considerable part of electric power facilities, and the major irrigation system. Private investment was also encouraged by large-scale expansion of government credit to agriculture and industry, by direct and indirect subsidies, taxes and import duties catering to domestic industry, and by the general inflationary trend.

25. Mexico's chief problem is to maintain a rate of economic growth exceeding the rapid population increase while at the same time resisting inflationary pressures. The high rate of public investment and excessive expansion of public and private credit have contributed significantly to inflation crises in 1948, 1949, and again in 1954. Living costs and wage demands became difficult problems, Mexican products became noncompetitive on world markets, industry stagnated, and imports caused severe drains on foreign exchange reserves. Peso devaluation, capital flight, and renewed discouragement of foreign investment followed. However, since the last devaluation in 1954, the government has succeeded in dampening inflation by reducing the scale of public investment, restricting private credit, and holding down wage increases.

26. Despite large manpower and resource potentials, the government will have difficulty in maintaining a satisfactory rate of economic growth. Power and transport facilities must be enlarged and improved before other production facilities can be expanded significantly. An increase in agricultural production is largely dependent on the costly development of new acreage. Moreover, investment at a rate necessary to bring expansion bears heavily on the economy, requiring a continued sacrifice of consumption levels to provide investment funds. A disproportionate part of this burden has fallen on wage and salary earning groups through indirect taxes, controlled wages, and high profit levels. There is considerable potential for development in petroleum. However, this nationalized industry (PEMEX), because it has maintained low domestic petroleum prices, has not accumulated investment funds needed to keep its reserves, refining capacity, and distribution facilities in line with economic expansion.

27. No immediate crisis threatens the Mexican economy, although the government is faced with the problem of controlling inflationary pressures. Mexico's financial position is good. While the public debt has grown at a moderate rate as a result of borrowing

for public investment, carrying charges are within the capabilities of the economy. Public revenues have mounted rapidly at a pace comparable to national income, and in 1955 and 1956 modest budget surpluses were used to reduce the debt. The 1957 budget envisaged expenditures totaling about $600 million distributed as follows: investment, 47 percent; education, 13 percent; other social services, 11 percent; public debt, 12 percent; military, 10 percent; general administration, 6 percent. It is probable that actual revenues and expenditures will exceed the anticipated budget.

28. The country's international financial position has improved considerably since the 1954 devaluation. The inflow of foreign capital, the repatriation of Mexican capital, and modest surpluses in the balance of payments were responsible for the rise in exchange reserves from about $200 million in 1954 to over $469 million at the end of 1956.

29. Mexico normally has an unfavorable balance of trade. Last year this imbalance increased. The rise in imports, generated by investment programs and growing prosperity, has come at a time when the prices of imports have been increasing. On the other hand, quantities exported and export prices have not increased correspondingly. In 1956, imports totaled about $1,070 million, of which the US furnished 78 percent; exports totaled, after adjustment for undervaluation, about $855 million,[4] of which the US purchased an estimated 75 percent (including 20 percent of US requirements of such vital defense materials as antimony, graphite, lead, zinc, and cadmium). The imbalance of $215 million was financed, as in 1955, primarily by receipts from tourism (which have been increasing) and from inflows of direct investment capital. While mineral exports are still important to Mexico, cotton and coffee have recently assumed great importance, the former accounting for 45 percent of Mexico's exports in 1956, and the latter for some 15 percent. The main imports continue to be capital goods and industrial raw materials.

30. Assuming no serious adverse shocks from outside, the outlook for Mexico's economy is good although there is some prospect for a further slow-down in the rate of economic growth. It seems likely that a new moderate government will also subordinate social reform to a policy of economic progress and emphasize economic stability along with growth. Government policies will to some extent be determined by economic nationalism. It is highly unlikely that any new government will retreat to any significant degree from the established monopolistic policy on petroleum. Any conspicuous in-

[4] Declared export prices of metals, livestock, and agricultural commodities usually reflect undervaluation and require adjustment to reflect the actual values. [Footnote in the source text.]

crease in foreign investment is likely to bring about additional restrictions. There will be growing demands to raise wages and prices, to ease credit, and to expand public investment, but over the short term at least, the government will resist these pressures or neutralize them by making modest concessions. Over the longer run, these demands may develop into a serious political problem.

International Relations

31. Mexico's conduct of its international relations reflects a strong desire to demonstrate its national independence. Largely as a result of having suffered foreign influence and intervention in its affairs during the 19th and early 20th centuries, Mexico is a strong advocate of the doctrine of nonintervention of one state in the affairs of another. While seeking to avoid specific commitments in disputes involving the major powers, it is generally aligned with the West.

32. *With the US.* Although distrust of the US lingers in the public mind, as well as in the government, the Ruiz Cortines administration has been friendly and generally cooperative with the US. However, there are certain sources of irritation between the two countries:

a. The migration of Mexican laborers to the US has injured national pride, and has led to Mexican complaints of maltreatment of the workers by US employers and officials. The regulation of this traffic is now relatively effective under the terms of a "bracero agreement" which was reached in 1951, and subsequently amended. The dollar remittances of the braceros have become an important factor in Mexico's current balance of payments and the government is unlikely to press for substantial alteration of the agreement. However, it will continue to seek increased benefits for the braceros.

b. Mexico claims nine miles as the extent of its territorial waters in contrast to the US claim of a three mile limit. Both the Mexican government and the press have been aroused over the alleged violation of their waters by US fishermen. In 1956 the Mexican navy seized and fined numerous US vessels, confiscating their catch and gear.

c. The Mexican mining industry, with government support, strongly opposes the recently proposed increase in US import duties on lead and zinc and fears severe retrenchment if the increase is effected. Lead and zinc have accounted for about 12 percent of the value of Mexican exports, and 75 percent of these metal exports have been sold in the US.

d. The tolerant attitude of the Mexican government has permitted the use of the country as a center for Bloc activities in Latin America.

Combined with a certain historical antipathy for the US, these problems are both periodic causes and excuses for anti-Americanism. Mexico has rejected a bilateral military agreement with the US, and

leftist agitation, primarily among students, has led the government to be cautious in expanding the small US-sponsored technical assistance program.

33. Even though Mexico's cooperation within the US-Mexican Joint Defense Commission is only nominal, military relations with the US have become closer in recent years and the army has adopted US training techniques as well as US doctrine. However, the government, somewhat suspicious of US motives and sensitive to opposition from extreme nationalists, has repeatedly declined to negotiate a bilateral defense pact with the US. Short of a major war directly affecting Mexico, it will probably refuse a military agreement with the US. It probably will also continue to refuse foreign military missions. However, Mexico has recently received a $10 million reimbursable credit for the purchase of military supplies and equipment.

34. Mexico is a signatory to the Rio Treaty and supports the idea of hemisphere defense. Realizing its strategic importance to the US, Mexico relies on US military strength for protection against armed aggression by a major power. Unless Mexico considered that its national security were threatened, it would probably not agree to the use of its territory by US forces.

35. *With Latin America.* In general, Mexico's relations with other Latin American countries are friendly. These relations have been disturbed in recent years only by occasional flare-ups of the old dispute with Guatemala over British Honduras (Belize), where the two countries have overlapping claims, and by protests of countries whose exiles Mexico harbors. Mexico has been more faithful to the widely accepted Latin American doctrine of the right of political asylum than any other country except Uruguay; as a consequence, it has long been a haven for numerous exiles, some of whom are Communists. Hence, although Mexico has not supported these revolutionary groups, it has been the center of revolutionary plotting, which has indirectly contributed to unsettled conditions in Central America and the Caribbean.

36. *With the Soviet Bloc.* Mexico maintains diplomatic relations with the Soviet Union, Czechoslovakia, and Poland.[5] Within Mexico overt activity by Bloc missions has increased markedly in recent years. However, operations designed to promote closer cultural ties through special Bloc missions, subsidized travel to the Sino-Soviet

[5] The size of the Soviet Embassy, employing about 50 Russians, is second only to that of the US. The Soviet military attaché staff, which has come under sharp Mexican press attack for espionage activities, was until recently the largest. The Czech Legation staff including 38 Czechs is more than double that of the Polish Legation. [Footnote in the source text.]

Bloc, and active binational centers have met with only limited success. Economic operations have resulted in a net increase in trade, but the Bloc's share of Mexico's total foreign trade is still negligible. Mexican officials have turned down Soviet suggestions of economic assistance. Moreover, the Mexican government and most of the press continue suspicious about ties with the Bloc; Soviet intervention in Hungary provoked a vigorous popular condemnation. In general, the Mexican government probably is wary of courting relations with the Bloc for fear its relations with the US might be adversely affected.

37. Mexico is a major base for Bloc operations in Latin America. These have included support and guidance for local Communist movements and intelligence and espionage activities directed against the US. In addition the Bloc missions have been particularly active in the commercial and propaganda fields. The Poles and the Czechs have been more active in the Central American and Caribbean areas than have the Russians. Poland is the only Bloc country with diplomatic relations in Central America. Czech commercial officials from Mexico stepped up their efforts considerably in 1956, and were instrumental in promoting a sizable increase in Czech trade with a number of Central American and Caribbean countries. Moreover, Soviet commercial officials made visits throughout Latin America. However, trade between these countries and the Bloc remains negligible. Within the last two years the Soviet ambassador and members of his staff travelled to several South American countries.

38. Over the next few years, Mexico is likely to maintain a friendly attitude toward the US, and continue to support the West generally. Closer military cooperation now appears possible, but in any event will remain limited. Continued cooperation in controlling informally the acquisition of strategic materials by the Bloc can be expected. However, economic expediency may lead to a limited increase in Mexico's trade with the Bloc.[6]

Appendix

Armed Forces Capabilities

1. *Army.* The Mexican army, numbering 50,000 officers and men, is capable of maintaining internal security and of defending its borders against invasion by any Latin American power. However, by US standards its combat effectiveness is negligible. It is not likely that there will be a significant improvement in army capabilities,

[6] A map of Mexico accompanying the source text is not reproduced.

which are limited by the low quality of manpower, inferior equipment, training deficiencies, and low pay.

2. *Navy.* The navy's capabilities are limited to coastal patrol. Its personnel strength is about 5,500. No significant improvement in naval capabilities is likely during the next few years.

3. *Air Force.* The Mexican air force is capable only of supporting the ground forces in maintaining internal security. Current air force inventory totals approximately 140 piston aircraft, all of US manufacture and a number of which are not operational. Personnel strength is about 3,000 officers and men, including 328 pilots.

4. The armed forces are supplemented by three security forces: the Federal District Police (7,000 policemen), the Rural Defense Units (45,000 unpaid volunteers used exclusively as local security units), and the Federal Highway Police, all three constituting part of the army reserve. With a little additional military training, the Federal District Police would have the effectiveness of infantry and cavalry troops of the regular army. The Rural Defense Units, already military in character, would have some value as partially trained replacements for the army in an emergency.

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246. Memorandum of a Conversation, Department of State, Washington, August 28, 1957, 5 p.m.[1]

SUBJECT

Call of Mexican Ambassador Upon the Secretary

PARTICIPANTS

The Secretary
His Excellency Sr. Don Manuel Tello, Ambassador of Mexico
Mr. William P. Snow, Acting Assistant Secretary of State for Inter-American Affairs

The Secretary received the Mexican Ambassador this afternoon at 5:00 at the latter's request. Ambassador Tello began by speaking of the Secretary's son and daughter-in-law, who reside in Monterrey, Mexico. He described them as highly regarded in Mexico and apparently quite happy there. He had seen them most recently at the

[1] Source: Department of State, Central Files, 611.12/8–2857. Confidential. Drafted by Snow.

Embassy reception given for Dr. Milton Eisenhower earlier this month.[2]

The Ambassador then referred to the decision in principle just reached by the United States Government to contract with his Government under Public Law 480 for the sale of a large quantity of corn. The Mexican Government wished the Secretary to know, through him, how gratified it was at this decision. He could testify that there was a serious need for the transaction because of the prolonged drought in the main agricultural areas.

The Secretary remembered that the Rockefeller Foundation, of which he had been a director, had instituted a program in Mexico to develop strains of corn better adapted to the local climate. Did this program still exist, and what was the basic problem with regard to corn production? The Ambassador replied that, although the Foundation program still existed and had contributed greatly to the improvement of corn production, nothing could withstand the effects of a serious and prolonged drought. In his own State (Zacatecas), cows were now selling for $5.00 a head (60 pesos). When you do not have water, the corn simply does not grow, he said.

The next subject discussed was lead and zinc. The Ambassador had conferred on various occasions with Mr. Rubottom, Mr. Kalijarvi and others in the Department. He realized that low world prices had hit the U.S. industry hard and that any remedy would have to be shared by countries outside. It was, in fact, a world problem, and Mexico had thought it might be desirable to take the lead in bringing together the foreign producer countries with a view to working out a system of voluntary export restrictions so that the U.S. Government would not find it necessary to impose import restrictions. Mr. Kalijarvi had told him frankly that commodity agreements between governments were not favored by the United States. The Mexican Mining Chamber representing private companies had agreed, after consulting with President Ruiz Cortines, to consider reducing their production if an international plan could be developed. The Finance Minister, Sr. Carrillo Flores, had spoken with Mr. Rubottom in Buenos Aires within the last week and had gained the impression that the United States might be in a position to consider a voluntary restriction plan if put forward by the producing countries.

The Secretary explained to Ambassador Tello that when the President had decided to support the measure before Congress

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[2] Eisenhower visited Mexico, August 4–10, as Special Ambassador and Personal Representative of his brother, the President. He was accompanied on this trip by Assistant Secretary Rubottom. Documentation on this subject is *ibid.*, Rubottom Files: Lot 59 D 573, Eisenhower, Milton.

calling for excise taxes on a sliding scale on lead and zinc imports, he had done so with deep reluctance. In principle, it was contrary to the President's basic philosophy to encourage restrictions on the flow of trade but situations arose which generated intense political pressures. It had become clear to the Administration that, unless relief measures were taken very soon, there would be so much criticism of failure to act that our reciprocal trade agreements program might be impossible of extension next year when it came up for renewal. If that should happen, far greater damage would have been done than if special measures were taken in favor of our lead and zinc industry.

As for a voluntary plan, the Secretary was not certain whether it could be entered into by the United States Government, although he had not studied that aspect of the matter fully. He likewise noted that, unless practically all of the major foreign producers agreed to the plan, those not so obligated could take advantage. A third point was that if private companies rather than governments should agree to some form of shared reduction, the American companies involved might find themselves in conflict with our anti-trust laws. However, he appreciated the constructive spirit of the Mexican proposal and assumed that a voluntary plan might be worth exploring.

He expected that Congress might adjourn within a few days without having passed the sliding-scale excise bill or any other measure of the kind. In that case, the industry could be expected to invoke protection under the escape clause of the Trade Agreements Act,[3] and the President was committed to request the Tariff Commission to expedite its consideration of any such petition. Thus, while the President would seek to make it as equitable and moderate as he could and while the effect of recourse to the escape clause would not be immediate, the Secretary believed it would have to be proceeded with. Whole U.S. communities would be unemployed if some of the lead and zinc mines were forced to close down. In many of these little towns, the only industry was the local mine.

The Ambassador stressed the moral advantage of a voluntary agreement, in that it would be so much easier to explain to the public in foreign producing countries like Mexico, and he hoped that the United States would be willing to entertain proposals from those countries. The conversation ended with the Secretary having listened sympathetically throughout to the Ambassador's exposition but without having given any commitment.

[3] Reference is to P.L. 86, the Trade Agreements Extension Act of 1955, enacted June 21, 1955; for text, see 69 Stat. 162.

247. Letter From the Deputy Assistant Secretary of State for Inter-American Affairs (Snow) to the Ambassador in Mexico (Hill)[1]

Washington, September 6, 1957.

DEAR BOB: This will acknowledge your letter of August 20,[2] (received on August 29) inviting comment on developments which we must anticipate in connection with negotiation of a PL 480 sale of corn to Mexico.

The Department is the agency primarily responsible for such negotiations, but practically speaking does rely heavily upon ICA and Agriculture in the conduct of negotiations. Both have expressed strong preference for negotiation in foreign capitals, not only for administrative reasons but because they feel application of standard terms can best be achieved away from Washington. Accordingly, the Inter-Agency Staff Committee specified Mexico City as the locale for this negotiation in approving the transaction. The responsible agencies here are now preparing negotiating instructions for the sale and loan agreements which will be supplied to the Embassy as soon as possible. You may find it of interest in the meantime to review the Department's CA–8787 of May 8, 1956,[3] which describes the role of the Department, Agriculture, ICA and other agencies in Title I PL 480 negotiations.

As you point out, projects to be undertaken by the Mexicans with the proceeds of PL 480 loans must have the approval of the United States. Each project is made the subject of an individual Project Agreement which specifies the use to be made of the loan fund and the degree of United States surveillance or control to be applied. These agreements are normally negotiated by the USOM after accord has been reached on the sales and loan agreements. However, we will want to have a clear understanding on the general nature of the projects the Mexicans have in mind as well as on the degree of ICA surveillance *before* the sales and loan agreements are concluded in order to avoid future trouble with individual project agreements. I am sure the Mexicans will also be interested in handling the matter in this manner to avoid embarrassment, particularly during an election year.

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[1] Source: Department of State, Central Files, 411.1241/8–2057. Secret; Official–Informal. Robert C. Hill presented his credentials as American Ambassador to Mexico on July 25.

[2] In this letter Hill wrote: "It seems that we might attempt constructively to capitalize in tactful and appropriate ways on the favorable climate created by our sympathetic and helpful attitude in the corn agreement." (*Ibid.*)

[3] Not printed. (*Ibid.*, 120.171/5–856)

The only information the Department has indicative of the use which Mexico may want to make of loan funds is that which has been received through the Embassy. Projects are listed in Mr. Lodwick's letter to Mr. Gwynn Garnett dated March 12, 1957,[4] and the Embassy's telegram No. 1870 of April 5, 1957.[5] Those covering public power installations, particularly if the development is in a field or area where private capital is available on reasonable terms, would present problems for us depending on individual circumstances. Nor would we want to finance irrigation projects that could directly result in increased Mexican production of agricultural commodities in competition with our own on the world market, such as wheat and cotton. On the other hand, I understand that projects in tropical agriculture or farm-to-market roads probably would not be objectionable from our standpoint. As I recall it, Sr. Carrillo Flores was aware of the difficulties that could be created for both our Governments in this respect and indicated at the time of his initial approach to the Embassy that he would try to eliminate any projects that might be of a contentious nature.

Now comes the still more important matter of the advantages we may seek in the favorable climate created by our acquiescence in Mexico's request for the sale of corn under PL 480. This must in some respects remain uncertain, at least for the present, because whatever we may hope to accomplish will have to be geared to the degree of "favorable climate" that persists on conclusion of the several agreements incidental to this transaction. While the Mexicans have been given a fairly clear idea of the nature of the proposal we will offer, the fact does remain that they were initially thinking in terms of repayment in pesos and the use of 85% of the proceeds. This is some distance from repayment in dollars and use of only 45% of the proceeds. We can justify our proposal in the light of changing circumstances and special considerations such as Mexico's stronger financial position, but the Mexicans can be expected to compare the deal with those made in the past with other Latin American countries such as Brazil, even though Dick Rubottom during his last visit took pains to discourage any undue expectation the Mexicans might have. The election period which Mexico is just entering also has a definite bearing on what might be possible of accomplishment, regardless of the outcome of the corn negotiations.

The primary objectives which might lend themselves to active pursuit in a favorable atmosphere include the Chamizal and related

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[4] Not found in Department of State files.

[5] In telegram 1870 from Mexico City, April 5, the Embassy informed the Department of the background to the Mexican request for corn. (Department of State, Central Files, 411.1241/4–557)

border and boundary problems, fisheries and territorial waters, the Sabalo claim and certain defense objectives, including radar sites, loran installations and military overflight rights.

Aside from other considerations, it seems unlikely that Mexico would or could conclude a settlement acceptable to us on the Shamizal matter during the remainder of the present administration. However, we might be able to get them to accept our now dormant proposal to initiate discussions through the Embassy and the International Boundary and Water Commission of the detached tracts, including Chamizal, moving in the direction of an eventual settlement.

With respect to fisheries and territorial waters, opinion here in the Department is nearly unanimous that our chances of reaching any solution acceptable to us prior to the 1958 U.N. conference on the law of the sea are slight if not nil. This results from our own unwillingness to prejudice in any way our already difficult position on the 3-mile limit as well as Mexico's desire similarly to preserve all of the weight of her own position. If you believe this is too pessimistic an outlook, you should by all means make your views known.

Defense objectives would also seem difficult if not impossible of attainment during the remainder of the present administration because of current Mexican domestic political considerations as well as the basic Mexican attitude on such matters. Further, the Department of Defense has not yet determined its requirements for radar sites in Mexico nor identified the financial resources available to support any request we might decide to make.

This leaves the Sabalo claim as the only objective we might reasonably expect to achieve. The claim has been advanced considerably over the past several years, as the Embassy's files will reflect, and President Ruiz Cortines led Ambassador White to believe that he wished to settle it during his administration. Any settlement in the foreseeable future, however, would presumably have to be kept secret because of domestic Mexican political considerations. Sr. Carrillo Flores has provided you with a convenient entree by connecting the Sabalo claim with the PL 480 transaction in his confidential conversation with Dick Rubottom on August 6, 1957. Although Carrillo Flores did not think it would be possible actually to settle the claim during the present administration, this is at least counterbalanced by President Ruiz Cortines' assurances to Ambassador White that he desires to affect a settlement before the end of his term. It seems possible that Carrillo Flores is not fully aware of the stage to which discussions between Ambassador White, President Ruiz Cortines and Mr. Padilla Nervo had advanced.

I hope that the foregoing will be useful to you and that you can take as much advantage of the corn transaction as possible in our national interest. The views I have expressed represent those current here in the Department. We would of course appreciate hearing from you if they are in any way at variance with your own appraisals.

Sincerely yours,

William P. Snow[6]

[6] Printed from a copy which bears this typed signature.

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248. Letter From the Assistant Chief of the Commodities Division, Bureau of Economic Affairs (Gabbert), to the Ambassador in Mexico (Hill)[1]

Washington, October 16, 1957.

DEAR BOB: We are making every effort to reply to the points raised in connection with your current P.L. 480 negotiations some time today. Should there be any delay, it would be because we are trying to get the best possible deal for Mexico on the amount for economic development. This might require some negotiating here with other agencies.

I talked with Ray Leddy[2] yesterday and pointed out some of the problems we have faced on the Mexican corn program. He was impressed with the very favorable position that Mexico holds in relation to other P.L. 480 programs and said that he had not realized how fortunate Mexico is. We suggested that it might be helpful for you to have this information.

In dealing with various countries on P.L. 480, we must consider each program on its own merits and cannot divulge what we are doing in other countries until after agreements have been negotiated and signed. On this confidential basis, I am enclosing a list of country programs either now being negotiated or about ready to be negotiated.[3] This also includes a tentative list of country programs which will soon be considered by the Interagency Staff Committee.

[1] Source: Department of State, Central Files, 411.1241/10–1657. Confidential; Official–Informal.

[2] Counselor and Political Officer in the Embassy in Mexico City.

[3] Not found in Department of State files.

You can see at a glance how tight the situation is and how well Mexico stands in relation to other programs which are vitally important to the United States. We had to turn down the Japanese program for $32.0 million last week in face of heavy pressure from the Japanese Government on the basis that we can only accommodate requests for commodities urgently needed at this time. We shall have to make further cuts in the list of probable programs to be considered in order to take care of a number of emergency situations. I might add that the Mexican request is the *only* one which was not substantially cut in the first place. Ray thought this situation might be made clear to the Mexicans without mentioning any specific countries or amounts, in case they raise too many problems or feel they are not getting fair treatment.

One point that is frequently misunderstood is the difference between the actual value of a program at export market price and the cost to the Commodity Credit Corporation. For example, the export market value of the Mexican program is $28.2 million and the CCC cost is $55.8 million. Briefly, the difference between these two figures is what it costs the taxpayer to finance the program. CCC cost is the actual cost to the United States and covers interest, storage costs, overhead, etc. The figures shown on the attached list are all in terms of CCC costs and are the amounts which have to be charged against our $1.0 billion authorization.

I hope the foregoing will be of some use to you and that the negotiations will result in an agreement which will be mutually advantageous to the United States and to Mexico.

With best personal regards,

Sincerely yours,

Howard M. Gabbert[4]

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[4] Printed from a copy which bears this typed signature.

249. Memorandum for the Files, by the Ambassador in Mexico (Hill)[1]

Mexico City, November 29, 1957.

SUBJECT

Memorandum of Conversation with President Adolfo Ruiz Cortines

At the President's request I called on him at Los Pinos at 7:00 p.m. on November 29, 1957. The conversation continued one hour and a half.

1. The President said that he had asked me to come to see him before leaving for Washington because he wanted me to carry his special greetings to President Eisenhower and to review with me his own views about U.S.-Mexican relations as he sees them.

2. He spoke in very affectionate terms of President Eisenhower stressing how concerned he felt over the report of his recent illness, and how important his recovery is to the cause of freedom in the world. His words in this regard were very warm and sincere. He hoped President Eisenhower would be able to taper his activities to spare himself the great strains of his office, some way should be found for him to deal only with the major problems confronting the world, as he is too much needed, now more than ever. He asked me to present his personal greetings and good wishes to the President.

3. The President said he had kept in close touch with my efforts and was very pleased with the matters which are regularly brought to his attention. He noted as marks of friendship that visits had been made to all levels of Mexican life, mentioning labor groups, press, and "both industrial and agricultural organizations;" in this connection he said that the visit to the State of Taxacala, a poor state with a large Indian population, where the party had gone to the bull farms and to the Indian pueblos and eaten with the people out of the common Mexican servings, was particularly impressive to the people of Mexico and the reports had spread quickly around the country, by word of mouth. He expressed again his appreciation for the Embassy's action during the July 27th earthquake, in which he said the Embassy had followed a wise and understanding course by not becoming alarmist and had also, in the visit which I made in the company of Minister Counselor Gray to the Foreign Minister early on that Sunday morning, offered the assistance of the United States in any way it might be needed. He mentioned also the recent trip to

[1] Source: Department of State, Central Files, 611.12/12–2357. Official Use Only. Transmitted to the Secretary under cover of a memorandum from Rubottom dated December 23. According to Rubottom's memorandum, a copy of the Ambassador's memorandum was also transmitted to the White House. (*Ibid.*)

Hermosillo, saying that when I had stayed in the background and avoided efforts to be photographed at his side (as others were doing) he felt that a real courtesy and understanding of Mexico was shown.

4. The President said he preferred to talk directly and simply, in a personal and off-the-record way. He knew it is the practice of the United States Government to keep close records in foreign affairs and eventually to publish them, but he liked to feel that he could avoid official communications and handle problems between the United States and Mexico in a way which could accomplish results without the hindrance of formalities. He then asked whether, in my opinion, relations with the Foreign Minister were going satisfactorily, implying that his great respect for the professional qualifications of the Minister did not lead him to overlook that large questions of policy might not always be best decided if left exclusively in his hands. I assured him that our relations with the Minister and his assistants were satisfactory on our part, and we wished to work closely with them. He referred specifically to several officials under the Minister (Under Secretary Goristiza, Oficial Major Ojeda, Ambassador Rabasa) and I indicated our high regard for them and also mentioned others as well, such as Protocol Chief Mariscal.

The President then said that even though this were so, he wanted to see our relations continue to progress. He said that I should feel free to come to see him at anytime I had something which I thought sufficiently important to take up with him personally and he would give it his immediate personal attention.

5. Referring to general policy, the President said he felt we are as interested as he is in dealing now not with the past but with the present and the future. I indicated that any comparative references would be inapplicable as our policies toward Mexico were long demonstrated as friendly; that I was well acquainted with the views of Secretary Dulles on our relations with Mexico, which were consistently constructive. The President terminated his reference to this matter by saying he knew that I had no prejudices.

6. He then went into the matter of United States investments. He emphasized several times that the basis of good relations must be mutual respect; all foreign interests in Mexico are treated fairly if they respect the laws and traditions of the country. He referred to General Draper and Mr. Richardson as two Americans with a thorough understanding of the way Mexicans conduct their relations with American businessmen. He said American companies now pay very good wages to their Mexican employees, and give them real benefits whereas some years ago the difficulties experienced by American companies were largely of their own making.

7. Reiterating that the Mexican people, though poor and suffering from severe wants in many sectors of the population, had

maintained their dignity and independence, the President said there is no problem for any foreigner in Mexico who recognizes these characteristics of his people. (I noted that there was no hint, expressed or implied, for any economic assistance on our part, merely a restatement of his feelings about the basic requirements for good relations.) He said he appreciated very much how we were keeping out of Mexican internal affairs; the present time, being an election year, is especially dangerous as attempts are made to provoke statements from the Ambassador of so important a country as the United States. He said that even silence when these political matters are brought up in my presence can be twisted to an interpretation of interference. He added that he was glad that I had not accepted the invitation to appear on the "Meet the Press" TV program, as the sponsors would have liked to attempt to bring me into political matters, of concern only to Mexicans, and detrimental to our good relations.

8. The political future, said the President, is excellent. He praised the nominee of the official party, Labor Minister Lopez Mateos; he knows him intimately, having trained and guided him for this candidacy; he would be ideally equipped to carry on the work which President Ruiz Cortines has himself set as his ambition for the Mexican people; he said "Lopez Mateos is just like me." He added that Lopez Mateos knows and understands the United States and is gifted in working harmoniously with others. He made a special point that Lopez Mateos knows how to handle the Communist ("just as I do") and that he would be competent to deal with the Communist elements should they become any problem. He said his great advantage was Lopez Mateos was twenty years younger than he and had his same ideals.

9. When I thanked the President for Mexico's support in international affairs, I also made reference to the decision just communicated to me by the Foreign Minister that Mexico could not contribute to the UNEF[2] support. The President said that the Government is short of money, but that he would look at the matter again to see if there is some way that the contribution could be made.

10. The President asked me to renew his thanks to Dr. Eisenhower and Assistant Secretary Rubottom for their visit and their assistance in Mexico's corn purchase under PL–480, and to convey his respects to Mr. Rubottom for his constant interest in Mexico. He asked me to give his greetings to Vice President Nixon and Governor

[2] Reference is to a U.N. Emergency Force to deal with crises in the Middle East which was established by U.N. Resolution 1000 (ES–I) adopted by the General Assembly on November 5, 1956.

Adams in the White House, and to reassure the President that he continues to be most anxious to advance our relations on the friendliest and most effective plane possible.

CUBA

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND CUBA[1]

250. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[2]

Washington, January 25, 1955.

SUBJECT:

Sugar Legislation

The marketing of sugar in the United States is controlled by quotas imposed on our domestic producers as well as foreign countries (primarily Cuba) by the Sugar Act of 1948,[3] as amended. This Act expires December 31, 1956, however various segments of the domestic industry have been trying to reach agreement on a legislative proposal to amend the Sugar Act at this session of Congress. The beet sugar producers and the cane sugar producers have reached an agreement but so far a third important segment, the east coast refiners of foreign sugar, are unwilling to go along. The domestic sugar beet and sugar cane producers want increased quotas effective this year as their present productive capacity is in excess of the quantity they may legally market.[4] Any increase in domestic quotas will of course reduce Cuba's sales in this market. Cuba is already burdened with excess supplies and a shrinking world market.

Last week representatives of the beet and cane areas met with Secretary Benson and asked him to agree that (a) this session of Congress is the appropriate time for sugar legislation and (b) that he should take the lead in preparing legislation acceptable to the

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[1] Continued from *Foreign Relations*, 1952–1954, vol. IV, pp. 867 ff.

[2] Source: Department of State, Central Files, 811.235/1–2555. Drafted by Callanan.

[3] P.L. 388, enacted August 8, 1947; for text, see 61 Stat. 922.

[4] The sugar industry's proposals were discussed by Cale in a memorandum of January 13 to Holland. Cale wrote in part: "In summary, the current proposal is for an initial increase in the fixed domestic quota of only 75,000 tons and a 55% share of any increase in consumption above that level for domestic growers. This compares with a proposal last year for an increase of 115,000 in domestic quotas in 1955, a further increase of 110,000 tons in 1956, and a 55% share of all increases in consumption after 1956." (Department of State, Central Files, 811.318/1–1355)

Executive Branch and the domestic industry. We are informed that Mr. Benson agreed subject to White House approval. On Friday of last week the same representatives of the industry met with Mr. Holland and me.[5] They asked for our favorable consideration of the same two points they had raised with Mr. Benson. They were told that we would study the proposal.

[5] Details of this meeting held on January 21, were described in a memorandum of conversation of the same date by Callanan. (*Ibid.*, 811.235/1–2155)

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251. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, January 25, 1955.

SUBJECT

Sugar Act

I fear that representatives of the domestic cane and beet sugar industries are undertaking to press through Congress amendments to the Sugar Act, and that they are attempting to circumvent the Department of State in so doing.

Some days ago industry representatives advised Mr. Waugh and me that Secretary Benson had assured them that, if the White House would approve his doing so, he would urge that the Sugar Act be amended by this Congress and that the Department of Agriculture would take the lead in developing a formula for amending the Act and in achieving industry-wide support for it. I have just been advised by the representative of American sugar-producing interests in Cuba that at 8:45 a.m. on Thursday, January 27, the matter will be discussed with the President in a meeting arranged by Senator Millikin.[2] The meeting will be attended by Secretary Benson, Senator O'Mahoney, Senator Dworshak, the two Senators from Utah, Senator Ellender, and Messrs. Cooley (North Carolina), Willis (Louisiana), Boggs (Louisiana) and Hill (Colorado).

These reports indicate that Secretary Benson and the congressional leaders who will support amendment of the Act may be acting

[1] Source: Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. II. Confidential. Sent also to the Under Secretary of State.

[2] Eugene D. Millikin (R.–Colo.), was designated spokesman for the 20 Senators and 5 Representatives who attended the meeting with the President.

in concert to achieve Administration support for the amendment without giving the Department of State an opportunity to participate and express its views.

It is my own feeling that the proposed legislation can be defeated in the House and, perhaps, in the Senate as well. It is further my conviction that the Act should not be amended by this Congress.

I have drafted a form of letter (Tab A) from the Secretary to Secretary Benson urging that he avoid commitments which could compromise or embarrass the Administration.[3]

Recommendation:

1. That the Secretary sign the attached letter and

2. That the Secretary warn the President of this Department's interest in this problem and request that he avoid making any commitment at the meeting on January 27.[4]

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[3] There is no evidence in Department of State files indicating that the draft letter was ever signed by Dulles and sent to Benson. (Department of State, Central Files, 811.235/1–2655)

[4] In a memorandum of January 26, drafted by Waugh, Dulles wrote the President as follows:

"I understand that you plan to meet tomorrow with Secretary Benson and a number of Senators interested in revising the Sugar Act of 1948, as Amended, which expires on December 31, 1956.

"For the reason that there are important foreign economic factors to be considered, I would urge that neither you nor any member of the Executive Branch make any commitments until time has been had for further coordinated study on this important subject." (*Ibid.*)

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252. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, January 26, 1955.

SUBJECT

Sugar Act

Mr. Hoover, after a couple of telephone conversations with Governor Adams at the White House, made the following decisions:

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[1] Source: Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. II. Official Use Only.

(a) The meeting scheduled with the President and Senators representing sugar states should go off as scheduled.

(b) Secretary Benson would be present at the meeting—he could not do otherwise.

(c) Governor Adams will call Secretary Benson and tell him this is a matter which obviously has not been coordinated with State. Mr. Hoover told Governor Adams that this has not been coordinated with State up to now, and there has been no discussion by Agriculture with State as to what the policy should be. This last statement is correct.

Governor Adams will further say to Secretary Benson that there are many factors involved, and we should have complete agreement between State and Agriculture before any action or commitments are made with regard to taking this legislation up this year. By taking up this legislation it is implicitly implied that there would be changes in the quotas, which we all agree is a very serious matter involving agreements previously made in good faith.

Therefore, at the meeting tomorrow no commitments should be made by either the President or Secretary Benson to the effect that they would take the legislation up this year. Both should be noncommittal and should say this is a matter that must be coordinated with a number of Departments before commitments can be made.

Mr. Hoover suggested that I should write a memorandum of our conversation and get it to you as soon as possible.

Mr. Hoover also approved the suggestion received earlier from Dr. Hauge that Secretary Dulles should sign a brief memorandum to the President asking that no commitments be made until a further coordinated study had taken place.[2] A copy of this memorandum, my memorandum to the Secretary,[3] and a copy of Mr. Benson's letter to the President of January 21,[4] are attached for your files.

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[2] Quoted in full in footnote 4, *supra*.

[3] In a January 26 memorandum to Dulles, Waugh wrote that Adams had agreed to mention to Benson Dulles' concern outlined in his memorandum to the President. Waugh's memorandum is in Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. II.

[4] In this letter Benson wrote that for a number of reasons it was desirable to amend the Sugar Act of 1948 at the present session of Congress rather than to wait until 1956 when Congress might wish to adjourn early. He wrote in part:

"As you know, the sugar program has worked well and it is strongly supported by the domestic industry. However, it is technical and its revision requires the balancing of a number of conflicting interests, both foreign and domestic. However, the demands for increased quotas are likely to increase. This might make it more difficult to compromise differences next year than it would be now.

"For the above reasons, I think it is essential that we start now on the development of the new legislation." A copy of this letter is *ibid.*

253. Letter From the President to the Secretary of Agriculture (Benson)[1]

Washington, January 26, 1955.

DEAR EZRA: I have agreed to meet, tomorrow morning, with a group of Senators representing the "sugar states." I do not know exactly what they have in mind, but I am certainly going to commit myself to nothing until after there has been exhaustive study of this matter, not only by the Department of Agriculture but by the State Department and other interested individuals. I have re-read your memorandum [*letter*] of the 21st,[2] but I note that is has no specific recommendations to offer.

It is my impression that the present plan is working fairly well, and I tend to agree with your idea that it would be better to deal with these matters in an off year rather than in an election year. However, it is equally important that we do nothing that looks like we are "running out on our agreements." I assume your meaning to be that whatever is now done is to take effect at the expiration of whatever period is covered by current agreements. Unless this is so, we can be properly charged with lack of good faith.

Since you are not here and cannot attend the meeting tomorrow morning, I am providing you with this memorandum[3] so that you will know the general line I intend to follow.

As ever,[3]

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[1] Source: Eisenhower Library, Whitman File, DDE Diaries. Personal and Confidential.

[2] See footnote 4, *supra*.

[3] The source text is not signed.

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254. Memorandum From the President to the Secretary of Agriculture (Benson)[1]

Washington, January 27, 1955.

This morning I was visited by the group of Senators and Congressmen who represent the States in which sugar is a significant

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[1] Source: Eisenhower Library, Whitman File, DDE Diaries. Personal and Confidential.

product. They request that we immediately initiate the investigations and studies that will necessarily provide the foundation for whatever program the Administration believes should be adopted *after* the expiration of the present sugar agreement with foreign countries.

They believe that whatever plan is adopted should be submitted to the Congress this year, but I repeat that it is not intended to interfere with or vitiate present agreements, but merely to be ready to become operative upon the expiration of the present agreements.

Senator Holland[2] pointed out that this is particularly important to the cane sugar states for the reason that cane is not an annual crop.

This matter of course vitally affects the State Department and our relationships with other countries. Consequently, while I think that you should initiate and supervise the studies and analysis, the State Department must, of course, not only be in close touch with every step of such a development, but its views must be definitely represented in whatever solution we propose.

I think you should immediately confer with the Secretary of State and agree upon a plan for the approach to this problem, and thereafter let me know the result.

D.D.E.[3]

[2] Spessard L. Holland (D.–Fla).

[3] Printed from a copy which bears these typed initials.

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255. Memorandum From the Secretary of State to the Assistant Secretary of State for Economic Affairs (Waugh)[1]

Washington, January 27, 1955.

This morning the President handed me his handwritten memorandum as follows:

"I talked to the 'Sugar Beet Senators and Congressmen'.

(1) Told them we would *not* displace or vitiate present agreements.

(2) State and Agriculture would study requirements of future and develop an agreed program.

[1] Source: Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. II. Confidential. Drafted by Dulles; also addressed to Holland.

(3) No objection to putting in bill this year (in fact, I think this necessary) but first statement will be (1) above."

John Foster Dulles[2]

[2] Printed from a copy which bears this typed signature.

256. Memorandum of a Conversation, Department of State, Washington, January 28, 1955[1]

SUBJECT

Prospective U.S. Sugar Legislation.

PARTICIPANTS

ARA—Mr. Holland, Mr. Randall
Amedeo Lopez Castro, Pres. Natl. Development Commission of Cuba
Arturo Mañas, Secretary of Cuban Sugar Stabilization Institute
Amb. Aurelio F. Concheso, Embassy of Cuba

Ambassador Concheso expressed Cuban concern regarding current efforts in certain quarters in the U.S. to amend U.S. sugar legislation. Specifically he mentioned the visit Thursday of domestic sugar producers to President Eisenhower.

Mr. Lopez Castro outlined briefly the problems faced by Cuba, giving particular emphasis to the decrease over the three year period from December 31, 1951 to December 31, 1954 of some 170 million pesos in Cuban monetary reserves. He likewise stated that the loss of these reserves had been accelerated each of the last two years of the period, thus following closely the downward trend of Cuban production and sales. He stated that should this continue, as could hardly be avoided, should Cuban participation in the world or the U.S. sugar market continue downward, results could not be but disastrous to Cuba, both economically and politically.

Mr. Lopez Castro and Dr. Mañas reviewed the efforts of Cuba to meet the sugar problem through reduction of the crop from 7 million Spanish long tons in 1952 to 5 million in 1953 and 4,750,000 in 1954. Now, they explained, Cuban labor has accepted for the present sugar grinding season a 7½ per cent reduction in wages, which, with the additional reduction of the crop to 4,400,000 Span-

[1] Source: Department of State, Central Files, 811.235/1–2855. Official Use Only. Drafted by Randall on January 31. Initialed by Holland.

ish long tons, means a total reduction in income for the workers of approximately 15%.

Dr. Mañas further stated that the present outlook is of such seriousness that the Cuban Sugar Stabilization Institute has prepared two reports on its recommendations regarding this year's crop. The basic recommendation justified a production for 1955 of no more than 3,770,000 Spanish long tons. Dr. Mañas pointed out that this report is confidential and remained in the Institute, one copy having been given to Mr. Lopez Castro as the official representative of the Cuban Government on sugar matters. The public report of the Institute recommended 4,400,000 Spanish long tons, using as a basis the total that could be justified for Cuban production under the London agreement. He stated that from the present outlook, with no change in U.S. sugar legislation, a production of 4.4 million tons would require financing of an additional reserve tonnage of at least 350,000 tons and possibly more. This extra reserve would need be financed at 2.77 cents per pound rather than at 3.08 cents as was done with the 1952 reserve.

Mr. Holland reviewed efforts of interested groups last year to amend U.S. sugar legislation. He referred to conversations with Amb. Concheso over the past year during which he had pointed out that the sugar question could only be one of constant struggle. He stated that he knew that Cuba had been well aware of this and had prepared for that struggle. He mentioned the need of recognizing the importance of related factors, since to ignore them might alienate support of the Cuban position. Specifically he mentioned the present situation with regard to Cuban rice import quotas.

Mr. Lopez Castro repeated the Cuban rice position as presented in Washington, making particular mention of the Cuban policy, there stated, to purchase all of its rice imports from the U.S. It was pointed out to Mr. Lopez Castro that announcement had been anticipated by February 1 of a deficit rice quota by Cuba and that word had been received that Cuba would be announcing that it needed no more imported rice during the remainder of the so-called rice year which would end July 1, 1955. It was mentioned that such an announcement would probably bring strong criticism from certain sections and would make more difficult the position of others in the U.S. generally sympathetic with the Cuban rice policy. Mr. Lopez Castro stated that there had apparently been some confusion as regards the date of February 1. In proposing it he had thought in terms of February 1 as the date which would be considered for announcement of future deficit quotas after amendment of the

present rice agreement[2] had been negotiated. Unavoidable delay has occurred in the initiation of these negotiations which will now begin in Habana on February 9. He feels that until discussion of changes in the present rice agreement have been held, Cuba will not be able to announce with assurance, either that any more rice is needed during the remainder of the present rice year, or to specify the amount that she might need. Cuba feels that it would be first necessary to know the date to be selected for the opening of the new "so-called" rice year.

Mr. Holland stated that rice was mentioned only as a question in point of the importance that must be given to each factor that would eventually affect the decision of the Congress regarding sugar legislation. He told Amb. Concheso that Cuba need not be preoccupied by the outcome of the meeting of domestic representatives with President Eisenhower. The President, he stated, had informed the representatives that the entire question of sugar and the advisability of undertaking new legislation would be given careful and full study before any definite position would be taken by the Executive. In such study, the President, of course, had assured the domestic sugar representatives that their point of view would be given appropriate consideration.

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[2] Reference is to the joint agreement on rice between the Governments of the United States and Cuba which entered into force on December 17, 1952, establishing a method for determining Cuba's annual rice import quota in connection with a General Agreement on Tariffs and Trade (GATT) concession on rice.

257. Memorandum of a Conversation, Washington, February 2, 1955[1]

SUBJECT

Revision of Sugar Act

PARTICIPANTS

Department of Agriculture
Under Secretary Morse
Assistant Secretary McConnell
Mr. Thomas Allen[2]
Department of State
Assistant Secretary Waugh
Assistant Secretary Holland
AR—Mr. Randall
IRD—Mr. Callanan

Mr. Morse opened the meeting by saying that he assumed everyone present was familiar with the recent developments on sugar. He then reviewed the sugar industry's attempt last summer to secure Executive branch approval of legislation, and he mentioned the fact that several bills to increase domestic quotas had been introduced at the last session of Congress.

Mr. Morse said he wanted first to clean up a few points, one of which was State's attitude toward dealing with sugar legislation in this session of Congress. Secondly, he wanted State's view on what changes should be made in the legislation. Mr. Morse said that the various accounts of the White House discussion on sugar with several Senators and Congressmen had started a great deal of speculation over just what the President had said and whether or not there would be any change in present legislation during 1955 and 1956. Mr. McConnell added the comment that we were faced with a very powerful political bloc which was determined to deal with the Sugar Act this year. Mr. Morse added that the question seemed to be how fast we could put any changes in legislation into effect, and emphasized that there was very strong pressure to make such changes effective this year.

Mr. Waugh said that he understood the President told the Congressmen there was no objection to sugar legislation this year. He also understood that although the President had no objection to the enactment of legislation this year, the President was opposed to such legislation being effective before the end of the present Act. Mr. Waugh said that State wanted to make sure that Agriculture

[1] Source: Department of State, Central Files, 811.235/2–255. Official Use Only. Drafted by Callanan.

[2] Deputy Director, Sugar Division, Department of Agriculture.

officials were clear on just what the President had said. Mr. Morse readily admitted that they were not clear on what decisions had been taken at the White House. He was, however, familiar with what Senator Millikin said to the press on leaving the White House. Mr. Waugh spoke of the desirability of clarifying the position toward sugar legislation. He said that State had heard from the White House with regard to the meeting, and he proceeded to read Secretary Dulles's memorandum[3] which he informed the group was based on a note in the President's own handwriting. He also read the group excerpts from the memorandum of conversation which Mr. Kalijarvi had with Dr. Hauge.[4]

Mr. Morse immediately questioned the use of the word "contract" and "agreement" which appeared in the documents. He said that the industry maintained there was no contract with Cuba or anyone else and that the Legislative branch of the Government can amend any legislation at any time. He went on to admit the desirability of getting a clarification of the President's position before any further action was taken by the two agencies. Mr. Morse noted there did not seem to be any disagreement on legislation this year, and that the difference between State and Agriculture had to do with the effective date of new legislation. Mr. Morse said that there was a need for some changes in the administrative and technical provisions of the Act but that there was no emergency about that. There was a need, however, to give the industry some immediate relief from their present difficult situation. Mr. Morse asked if there was any possibility that the President had taken a decision without having sufficient information before him. Mr. Waugh said he did not know, but that he did consider State had clear instructions as to what the President wanted done.

Mr. Holland said that with regard to there being a contract with the Cubans, he thought it perfectly obvious that no legally binding

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[3] Document 255.

[4] Kalijarvi called Hauge on January 27 to ask for clarification of the President's statement to the Congressmen. In his memorandum of the telephone conversation, dated January 27, concerning major agency responsibility for sugar legislation, Kalijarvi wrote:

"Dr. Hauge said that the President made it clear that the responsibility for it was with the two departments—State and Agriculture. Dr. Hauge said that the President got across the idea that this would start work on legislation for 1957. There was no talk of changing the contract. He said they brought up two things: (1) to get legislation this year; and (2) they wanted Benson to be charged with responsibility. He said he did not know what the working arrangements would be but that it was definitely a two-department proposition. Mr. Kalijarvi asked Dr. Hauge if it was his judgment if any legislation would be enacted this year. Dr. Hauge said the present contract would be adhered to but that the President would be glad to get legislation to go into effect when the present legislation expires." (Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. I.)

agreement or commitment was made. He did consider, however, that this Government had a moral obligation to allow the present Sugar Act to run its course. A discussion of the circumstances under which legislation was enacted in 1951 followed. Mr. Callanan said he understood the Cubans had been told they would be able, over the 4 year life of the new Act, to recoup the immediate loss they suffered by the increase in the Puerto Rican quota. He pointed out that this was a perfectly natural thing to say in answering protests of the Cuban government with regard to their reduced participation.

Mr. Morse said that the Department of Agriculture had to contend with criticism that they were not protecting the interest of the American farmer and had to be careful that they did not encourage this type of criticism by appearing to act only in the interest of foreign producers. Mr. Callanan pointed out that the domestic growers received subsidy payments each year to compensate them for the restriction placed on their production. They receive these payments whether or not restrictions were actually imposed. In fact, this year would be the first year since 1948 that acreage restrictions were imposed. Mr. Morse answered by saying that in newly reclaimed areas of the west there is constant demand for sugar beet acreage. He said he couldn't tell GI's that all increases in U.S. consumption had to go to the Cubans. Mr. Callanan pointed out that no one in the State Department had ever said they were opposed to the principle of sharing future increases in U.S. consumption.

Mr. Holland repeated that he felt there was no binding obligation to Cuba to allow the present Act to run its course but that he did feel there was a strong moral obligation. He said he could readily understand why Cuba had been told in 1951 when she lost 170 thousand tons to Puerto Rico that Cuba would have 4 years in which to "get well". He said he agreed that 1955 was the right year for sugar legislation. It would allow the Cubans to be told they would have 2 more years in which to get their house in order. They would thus have no grounds for complaint when new legislation became effective in 1957. He suggested that Mr. Morse determine what the President did or did not say. Mr. Morse replied that Agriculture would be very much concerned and embarrassed if the President had taken a decision without sufficient information. Mr. Waugh suggested that he ask Dr. Hauge what had happened as Dr. Hauge had been the only one present except the President. Mr. Morse questioned whether anyone should put the President on the spot if he had acted without proper information. Mr. Morse then told Mr. Holland flatly that Agriculture would not recognize any moral commitment to do anything for Cuba and the meeting broke up on this note.

From the foregoing conversation three things are clear:

1. Although the point was made repeatedly that Agriculture should obtain clarification of the situation at the White House, and Agriculture concurred, no indication was given by Mr. Morse that he would take any positive action.

2. From the very beginning of the meeting it was apparent that Agriculture had already decided that the domestic industry should have immediate relief this year. The only reasons they advanced were the pressure of a very powerful political bloc and the fear of possible accusation that Agriculture was unwilling to do anything for American farmers.

3. Mr. Morse's statement that Agriculture would not recognize any moral commitment to Cuba is indicative that foreign policy considerations will play no part in Agriculture's thinking on legislation.

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258. Letter From the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting) to the Assistant Secretary of Defense for International Security Affairs (Hensel)[1]

Washington, February 4, 1955.

DEAR MR. HENSEL: I refer to your letter of December 27, 1954,[2] which states that the Joint Chiefs of Staff have recommended that the United States comply with a Cuban request to commit the following three additional Cuban military units for hemisphere defense by an amendment to the secret Bilateral Military Plan with Cuba;[3] one infantry battalion; one fighter bomber squadron; and one naval reconnaissance squadron.

In your letter of January 3, 1955 (file No. I–9060),[2] you outline the stringent situation with respect to the availability of MDA funds for Fiscal Year 1955, and the difficulties which will be faced in meeting Fiscal Year 1955 world-wide program objectives. From a foreign policy point of view, the Department considers it essential

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[1] Source: Department of State, Central Files, 737.5/2–455. Secret. Drafted by Spencer, and by George S. Newman, Office of the Special Assistant to the Secretary for Mutual Security Affairs.

[2] Not found in Department of State files.

[3] Reference is to the Bilateral Military Assistance Agreement between the United States and Cuba signed on March 7, 1952, and entered into force on the same date. For text, see 3 UST (pt. 2) 2901.

that, within available funds, we meet our Fiscal Year 1955 objectives before undertaking new program commitments. We feel that the proposed amendment to the Bilateral Military Plan would be regarded by Cuba as a U.S. commitment to provide support to the additional units during the present fiscal year. Unless the Department of Defense believes that, for overriding military reasons, the secret Bilateral Military Plan with Cuba should be amended and the necessary funds diverted from other programs, the Department does not consider it necessary or desirable to amend the plan at this time.

I note that in your letter of December 27, 1954 you indicated that the funds presently reserved for El Salvador would be used to support the Cuban infantry battalion. In my letter of January 24, 1955,[4] I indicated that the Department of State was reviewing the need for continuing the reservation for El Salvador. I wish to advise you that we now feel that this reservation is no longer necessary. As you know, consideration is being given to a military assistance program for Guatemala and it is our view that for foreign policy reasons it is essential that we be prepared to furnish such assistance to Guatemala. In this connection, it is our feeling that the funds previously reserved for El Salvador should be used to finance the Guatemalan program and thereby avoid diversion of funds from other Latin American programs or programs in other parts of the world.

Sincerely yours,

Frederick E. Nolting, Jr.[5]

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[4] Not found in Department of State files.

[5] Printed from a copy which bears this typed signature.

259. Memorandum of a Conversation, Department of State, Washington, February 17, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Mr. Waugh, E
Mr. McConnell, Assistant Secretary of Agriculture
Mr. Hoyt, MID
Mr. Callanan, IRD

Mr. McConnell opened the meeting by saying that he had come over to the State Department today to see just what could be worked out with regard to sugar legislation. He understood that State felt it had a clear indication from the White House as to the President's wishes. Mr. McConnell said that Agriculture did not feel that it was clear what the President said or whether he meant exactly what he said. He noted that of 26 Senators at the meeting there were 26 versions of what the President said. Mr. Waugh reminded him that he had discussed the meeting with Dr. Hauge who had been present.

Mr. Waugh referred to a breakfast meeting he heard that Secretary Benson and Under Secretary Morse had with the President.[2] He asked Mr. McConnell if they had discussed sugar legislation and if so what their understanding was as to the President's feeling. Mr. McConnell replied that Messrs. Benson and Morse had come away from the White House with the feeling that if State, Agriculture and the industry could get together on a reasonable proposal for legislation effective before 1957 that the President would not object.

Mr. Waugh made it clear that State was in favor of legislation this year and had no objection to sharing increases in consumption. He remarked that the only point of difference between the two Departments seemed to be when new legislation would be effective. Mr. McConnell agreed this was so. He went on to say that it was utterly impossible for him to open negotiations with the industry on the basis that nothing could be done for them until January 1, 1957. He remarked on the great political strength of the sugar interests, and said that if he were asked he could not advise the President to refuse consideration of an effective date before 1957 without point-

[1] Source: Department of State, Central Files, 811.235/2–1755. Official Use Only. Drafted by Callanan.

[2] No record of this meeting has been found in Department of State files or the Eisenhower Library.

ing out to him that the President should carefully weigh the political difficulties which would result. Mr. Waugh agreed that an effort should be made to avoid political difficulties for the President. Mr. McConnell indicated he was receiving numerous telephone calls from Senators and that they not only felt strongly but were highly emotional about sugar legislation.

Mr. McConnell said he thought the thing to do was to get the President to indicate that he preferred not having any legislation effective before 1957, but that if State, Agriculture and the industry could agree on a reasonable proposal effective before 1957 he would not be opposed. Mr. McConnell pointed out that we would then be in a strong negotiating position with the industry if they knew in advance that the President would only consider legislation under these terms. Mr. Callanan told Mr. McConnell that he should be aware that State had always put a great deal of emphasis on the desirability of allowing legislation to run its course. He outlined the situation in 1951 when State had agreed to a large increase in the Puerto Rican quota only because Agriculture, as a part of the bargain, agreed that the change would not be effective until the 1948 Act expired.[3]

Mr. McConnell suggested that State consider whether Cuba might get a better deal by our making some concessions to the domestic industry at this time rather than by our insistence on the present Act running its course. He pointed out that the domestic industry could put legislation through the Congress on their own terms whether the Administration liked it or not. He said it was never wise to win a skirmish and wind up losing the battle. Mr. Waugh conceded that this was a point which deserved careful consideration.

Mr. Waugh asked Mr. Hoyt if he believed Mr. Holland could be persuaded to change his present position. Mr. Hoyt said that it would be necessary to know what compensating factors there were which would convince Mr. Holland a change was desirable. Mr. Hoyt went on to describe the difficult political situation in Cuba and said that legislation injurious to Cuba's interests could well overturn the new constitutional government.

Mr. Waugh agreed that he would ask Mr. Hoover tomorrow for his views on whether State should join Agriculture in an effort to moderate the present White House position.

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[3] Reference is to the Sugar Act Extension of 1951 (P.L. 82–140) enacted September 1, 1951; for text, see 65 Stat. 318. This act raised the Puerto Rican quota from 910,000 tons to 1,080,000 tons, but this provision did not become effective until December 31, 1952, when the Sugar Act of 1948 expired.

260. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) and the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[1]

Washington, March 10, 1955.

SUBJECT

Sugar Legislation

Recommendations:

1. That we inform Agriculture that we are willing to consider sugar legislation effective before the present Act expires, provided that Agriculture will agree to support us in recommending a Presidential veto of legislation less favorable to foreign countries than that on which we may mutually agree.

2. That in our negotiations with Agriculture we seek to obtain their approval of legislation meeting the following conditions:

a. A termination date of December 31, 1962.
b. No increases to be made in the present basic quotas of the domestic sugar producers.
c. Domestic producers not be permitted to share in increases in consumption until consumption reaches 8.5 million tons.
d. Increases in consumption above the 8.5 million tons to be split on a 50–50 basis between domestic and foreign suppliers.
e. The present method of allocating a domestic deficit to other domestic areas and Cuba be continued.

3. That we be authorized, if it is impossible to obtain Agriculture approval in full to the foregoing, to make the following concessions, in the order indicated:

a. Agree that a deficit in the quota of a domestic area be allocated in the first instance to other domestic areas.
b. Agree that increases in consumption above the level of 8.5 million tons be divided 55 per cent to domestic areas and 45 per cent to foreign areas.
c. Agree that domestic producers begin to share in increases in consumption when consumption levels reach 8.4 million tons, but in this event that they shall share on a 50–50 basis and that Cuba share in reallocation of domestic deficits.

4. That we explore with Agriculture the possibility of amending or administering the provisions of the Act relating to prices and to domestic production and marketing controls in such a way as to

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[1] Source: Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Mem. Con. II. Confidential. Drafted by Callanan, Cale, and Mulliken; concurred in by Willis C. Armstrong; and approved by Hoover on March 11.

assure that incentives to increased domestic production are minimized.

Discussion:

Although it was the general expectation when the Sugar Act was last revised in 1951 that its quota provisions would remain in effect until January 1, 1957 and although Cuba especially has relied on being able to help meet the serious problem which it faces by being able to supply to the United States the quantity of sugar provided under the present Act, production in our domestic cane and beet areas has increased to such an extent that the producers are holding unusually large inventories. They are therefore urging an immediate change in the Sugar Act to obtain relief. In this they are being supported by their Congressional representatives, by many of the cane sugar refiners and by the Department of Agriculture. It appears that the only way in which it would be possible to avoid changing the Act would be for the President to use his veto authority. It would probably be inadvisable for the President to use this authority if legislation can be obtained that will not reduce foreign participation in the United States market in the absolute sense. The proposal made herein would avoid any reduction in the amount of sugar that the foreign producers are now supplying to this market. It is felt that the President would be justified in using his veto authority to assure that foreign participation in this market is not reduced in absolute tonnage and that changes in the Sugar Act are not of a retroactive character.

Basic Quota

Although the domestic sugar producers are urging that their basic quotas be increased immediately, it is believed that the Department of Agriculture would agree that this should not be done provided domestic participation in increases in consumption is started at a level of consumption to which the Department of Agriculture will agree.

Level of Consumption at which Sharing of Increases Should Begin

In determining the consumption level above which increases in consumption should be shared consideration should be given to the following:

1. The present consumption estimate on which this year's quotas for foreign areas are now based (8.2 million tons).
2. The quantity of sugar actually distributed last year (8,375,000 tons).
3. The Department of Agriculture forecast of consumption for the current year (8,500,000 tons).

Domestic growers have proposed the first of these and the refiners' proposal is similar to the second. The Administration should recommend the third, since it is the only one which would:

a. Give adequate consideration to the reasonable expectations of foreign suppliers under existing legislation.
b. Not be retroactive in effect.

Base No. 1 is not acceptable, since it is lower by 175,000 tons than actual distribution of sugar in this market last year. Furthermore, foreign countries were penalized last year to the extent of 125,000 tons (the difference between the final 1954 consumption estimate of 8,250,000 tons and actual distribution of 8,375,000 tons), because domestic producers were permitted to deliver in 1954 sugars which were produced in 1953 and declared against the 1953 quota, when their production was low. In effect, the normal 1954 increase in consumption was given to domestic producers in 1953 through the device of so-called "constructive deliveries". Consequently the 1955 final quota may be expected to be higher than the 1954 final quota by the equivalent of 2 years normal increase in consumption. Under existing legislation the full increase (250,000 tons) would go to foreign suppliers.

To the extent that domestic producers are permitted to supply the difference between last year's quota of 8,250,000 tons and the 8,500,000 tons which Agriculture estimates will be consumed this year, foreign suppliers will lose the 1955 consumption growth as well as that of 1954.

Certain Agriculture officials have indicated that a 50–50 split above the 8.3 million level would be acceptable to Agriculture and could probably be negotiated with the domestic industry. At the outside therefore there will be a 200,000 ton difference in our positions on this point, which immediately suggests a compromise at a level of 8.4 million tons. This would give Cuba a quota of 2,860,000 tons, which is 113,000 tons greater than their average of the past two years. If it is necessary to compromise, a split above the 8.4 million ton level would probably not be disastrous to Cuba. If we have to agree to such compromise, however, we should, as indicated below, exact a return on two collateral issues, namely, the 50–50 split in the market and the present method of sharing deficits.

Reallocating Deficits

The domestic sugar industry is presently advocating that a deficit in a domestic area should be reallocated first to other domestic areas. This would be a radical departure from present policy. Over the years there are large fluctuations in sugar beet production.

Beet deficits are therefore sizeable in some years and Cuba should continue to share in them.

50–50 Split of Increases in Consumption

Although Agriculture is agreeable to a 50–50 split of increases in consumption, there is historical precedent for a 55 per cent share for the domestic areas, and they may well insist on it. However, as a practical matter, the actual tonnage involved is only about 6,000 tons annually.

Avoiding Further Pressure to Change Quotas

One of the principal reasons why domestic producers are now in difficulty is the fact that the present price of sugar is relatively attractive as price supports of other agricultural products are being reduced, and acreage restrictions on other crops have resulted in some shift to sugar beets. There is danger that unless sugar prices are kept in line with those of competing crops we may, in a few years, be faced with another request to revise the Act for the benefit of domestic producers. Anything that we can get Agriculture to do to prevent such a development would, of course, be desirable.

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261. Memorandum From the Director of the Office of Middle American Affairs (Newbegin) to the Deputy Assistant Secretary of State for Inter-American Affairs (Sparks)[1]

Washington, March 15, 1955.

SUBJECT

Political Aspects of Cuban Sugar Problem.

By despatch dated February 21, 1955,[2] Embassy Habana has described the possible political consequences, in Cuba, of a reduction in that country's participation in the U.S. sugar market. The Embassy's arguments, supplemented by some from this office, are edited and summarized below.

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[1] Source: Department of State, Central Files, 837.2351/2–2155. Limited Official Use. Drafted by William B. Connett of the Office of Middle American Affairs.

[2] Not printed. (*Ibid.*)

(1) A significant reduction in Cuba's percentage participation in the U.S. sugar market would result in ill will against our country in general and against our Government in particular.

(2) It might prejudice the ample cooperation Cuba has given us in the international field, such as in the matter of the Nicaro Nickel operations[3] or in international organizations.

(3) It might adversely affect the treatment accorded by Cuba to American business interests and cause Cuban importers to seek to buy more from European markets.

(4) It would seriously weaken the Batista government by undermining popular confidence, which is already far from complete, by correspondingly strengthening the opposition, and by increasing the already considerable economic discontent in Cuba.

(5) By weakening the Batista Government, it would render it more vulnerable to revolution and to communist penetration, more susceptible to graft and more likely to engage in unsound fiscal policies.

(6) It would strengthen the hand of the 25,000 active communists in Cuba and perhaps permit them to regain the ascendency they formerly had in the labor movement and the substantial penetration they once achieved in the Government. Batista, already chary, for political reasons, of giving serious offense to the communists, might treat them with greater deference if he could not lead from a position of strength.

(7) By fomenting unrest, a cut in Cuba's share of the U.S. sugar market might strengthen revolutionary elements (already strong enough to carry out periodic acts of violence) to an extent which might enable them to overthrow the Government. Leaving aside the destructive nature of armed revolution, the downfall of the Batista Government would almost certainly spell continued political instability for Cuba. If Batista could not hold the country together in the face of economic adversity, there is little likelihood that anyone else could. Moreover, it would be hard to find any other Cuban political figure whose stewardship would be as likely as Batista's to serve the best interests of the United States.

(8) It would retard the substantial ($350,000,000) economic development program the Batista Government is carrying out.

(9) It would aggravate the already severe unemployment problem in Cuba (500,000 unemployed at all times and close to a million out of work or only employed part time in the "dead season").

(10) Finally, it could undermine the whole Cuban economy and, by decreasing Government revenue and private capital, prevent

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[3] Reference is to the U.S. Government-owned nickel plant at Nicaro, Cuba; see Document 296.

needed diversification. One-third of Cuba's national income is derived from sugar and two-thirds of it is generated, directly or indirectly, by the sugar industry.

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262. Memorandum of a Conversation, Department of State, Washington, March 16, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Agriculture
Mr. McConnell, Assistant Secretary
Mr. Myers, Director, Sugar Division

State
Mr. Holland, ARA
Mr. Cale, AR
Mr. Armstrong, ITR
Mr. Callanan, IRD

Mr. Holland began the conversation by saying that before taking his present position he had virtually no knowledge of the sugar industry. Since taking office he had studied the record with an open mind and had come to the conclusion that the best interests of the United States would be served if the terms of the present Sugar Act were not changed before 1957. He felt that the Sugar Act with its four-year term was a moral obligation of the United States, and to change it before it expired would lessen the confidence which foreign countries have in the United States. Never again would they feel they could place the same degree of reliance on any kind of a time commitment from this government in the sugar field or any other field. He believed therefore that we should stand firm on this question. Our position would be an honorable one which he could defend and which would bring credit to the Administration at home and abroad.

Mr. Holland indicated that he would be prepared to see the domestic industry receive larger quotas in 1957, if the terms of the present Act could be maintained for its duration. Cuba could be told

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[1] Source: Department of State, Central Files, 811.235/3–1655. Confidential. Drafted by Callanan.

that we had made you a commitment, we will fulfill it, and now it is time for a new appraisal of the needs of our domestic industry. Cuba would have almost two years in which to prepare for a smaller participation in this market.

Mr. Holland said he felt that a large part of our present difficulty results from the unrealistic price support sugar receives in relation to the price supports on other commodities. He remarked that if the price of sugar were cut a cent a pound there would be much less incentive to grow sugar and the balance would be restored between sugar and other agricultural commodities. Mr. Holland went on to say that although he felt his original position was the correct one, he had been persuaded to accept 8.5 million tons as a compromise figure. He believed he could undertake a defense of an 8.5 figure although still believing that his original position was the correct one. A little later he had been persuaded to accept 8.4 as the level over which increases in consumption would be shared. He regretted now that he had accepted this, and although he would try to defend it, it would be with the personal conviction that the arguments made against him were the correct ones. He did not want to impair Cuba's present position in this market but was willing to see the rate of increase flattened out for the benefit of the domestic industry. However, he needed the support of Cuba in many ways and firmly believes he would lose that support at any level under 8.4.

Mr. Holland described to Mr. McConnell how an action taken with respect to sugar would be translated immediately into a number of other fields both in Cuba and in other Latin American countries. He recited the large number of international organizations where the United States needs the support of Cuba on issues of vital importance to our welfare. He said it would be unwise for this country to make it more difficult for Batista to function in Cuba as a constitutional president, which he now is. Batista's personal inclinations are to be a dictator and an action taken by the United States which creates serious political difficulties for him would very easily force him to dictatorial actions which come to him by instinct. Mr. Holland repeated that if Cuba could be given two years warning of what its position was going to be in 1957 he could much more easily defend reducing its quota than if we were to disregard our moral commitment to Cuba and injure them without warning.

Mr. McConnell said that he understood the logic of Mr. Holland's position and could subscribe to his arguments. It was necessary, however, for him to take into account other practical considerations which affect both the Department of Agriculture and the Administration. He believes that unless something is done for the sugar industry the Administration could easily be in very serious

trouble. Senator Ellender[2] is pressing to introduce sugar legislation and Senator Ellender as Chairman of the Senate Committee on Agriculture is a key man in the fight to retain flexible price supports. Flexible price supports had been won after a very difficult fight in the Congress. There is a strong movement under way now to do away with flexible supports and go back to the old system. It is important to the Administration that this move be defeated, and if the Administration is successful it would bring great credit to the Administration. As the sugar people have tremendous political strength there is grave danger they will make a deal with the proponents of the old rigid price support system. He therefore did not consider it wise to fight them at this particular time.

Mr. Holland reminded Mr. McConnell that the President had told Congressional leaders that while he was not opposed to sugar legislation at this session of Congress he did not want such legislation to do violence to our commitment to Cuba. Mr. Holland said he did not believe the President would budge an inch from this position. Mr. McConnell quickly agreed with this and said he was sure the President would only change his mind if State and Agriculture persuaded him that there was a better course. Mr. Holland said he recognized the seriousness of Agriculture's problem and knew that there would be trouble for them in accepting our proposal. He added that there was also trouble for us in our proposal. In all decisions of this kind there were rocky roads in all directions. One could only try to pick out the road with less rocks, which at the same time would not prejudice the best interests of the United States. Any decision that was taken would create irritation in both foreign and domestic political groups.

Mr. Myers commented that although he was constitutionally opposed to devices which interfere with the free flow of trade it is necessary to recognize that the sugar industry of the United States has always been protected and always would be protected. In this respect the United States is in a much more defensible position than any other country in the world. He had been defeated in his efforts in the International Sugar Agreement to get other countries to agree to as liberal an import policy as the United States. With regard to Mr. Holland's comment about prices, Mr. Myers said he had been giving this serious thought for some time. Over the past year or so sugar prices had come down from 6.25 to 5.80. This had not been enough to discourage production but in any event last year was no time for depressive price actions when the battle over flexible price supports was on, else he would have driven the sugar people to the support of the advocates of 90 percent of parity. With regard to Mr.

[2] Allen J. Ellender (D.–La.).

Holland's contention that it would be better to cut Cuba back more severely two years from now, Mr. Myers said that Cuba would complain just as loudly then as it would now. He pointed out that any bill before the Congress this year could easily be amended to strike out 1957 and insert 1955. Mr. McConnell agreed this was a danger and said there was no way the administration could stop this unless, of course, the President would veto the bill. Mr. Holland said he certainly assumed the President would veto a move of this kind and that the Administration should plan in advance on a White House veto of a bill containing undesirable amendments.

Mr. McConnell thanked Mr. Holland for the clear expression of his position and said that he and Mr. Myers would go back to Agriculture to think it over.

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263. Memorandum of a Conversation, Department of State, Washington, March 26, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Dr. Gabriel Hauge
Mr. McConnell, Agriculture
Mr. Holland, ARA
Mr. Waugh, E
Mr. Cale, AR
Mr. Callanan, IRD

Mr. Holland began the meeting by asking Dr. Hauge if he might outline his views on sugar legislation first, as Mr. Waugh had not been present the last time he had talked to Mr. McConnell and therefore he believed a statement of his views at this time would be as useful to Mr. Waugh as he hoped it would be to Dr. Hauge.

Mr. Holland proceeded to outline his views on sugar legislation in some detail. His remarks followed very closely the views expressed to Mr. McConnell on March 16 (see memorandum of conversation of that date)[2] and therefore will not be repeated here. Mr. Holland closed his remarks by saying that he considers the

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[1] Source: Department of State, Central Files, 811.235/3–1655. Confidential. Drafted by Callanan.

[2] *Supra.*

industry's proposal economically and morally indefensible. He did not believe that an uneconomic industry should be continuously extended. The industry had agreed to a "package" in 1951 and should be made to adhere to present legislation through 1956. To upset the present Act now would create insuperable problems for Cuba and jeopardize the Batista regime which was now on a constitutional basis. Mr. Holland said he realized sugar legislation had important domestic political considerations and recognized that they were going to collide with economic and moral considerations. He was willing to accept a compromise which would share increases in consumption over 8.5 million tons. He believed he could sell this to the Cubans. Agriculture however wanted 8.3. He was not authorized to go below 8.5, unless Agriculture was willing to come up to 8.4 and give this figure its strong support.

A general discussion of the domestic sugar industry followed, including the quota system, the tariff, benefit payments to growers, and collections of excise taxes. Dr. Hauge and Mr. McConnell agreed that this was an uneconomic field, but pointed out that sugar was not as bad as many other agricultural commodities.

Dr. Hauge said he was familiar with the President's views on sugar legislation. The President would be opposed to breaking any commitment to the Cubans or anyone else, and his instinct in this case was to let sugar legislation run unchanged through 1956. Dr. Hauge said that when things came to a showdown it would be necessary to marshall all the evidence for the President. He asked in just what form there was evidence of a commitment to the Cubans. Dr. Hauge was told that to the best of our knowledge there had not been an exchange of notes on this subject in 1951. Dr. Hauge asked if there was anything in writing which the Cubans could point to as indicating a commitment of this government. Dr. Hauge was told that there did not appear to be any written commitment that the Cubans could use as evidence. He was informed that the commitment was merely inherent in the situation in 1951. When the Puerto Rican quota was increased substantially the Cubans were told they would be given four years to recoup their loss. Dr. Hauge was assured that a search would be made of the record to establish whether or not there had been any written communications with the Cubans.

A lengthy discussion of statistics on consumption, distribution, and quotas followed. It was established that State would accept 8.4 if Agriculture would agree, but Mr. McConnell said he could not go above 8.3 at this time. Dr. Hauge suggested that Mr. McConnell talk to Secretary Benson and ascertain the maximum figure to which they felt they could go. He suggested that the meeting be resumed

on Tuesday, March 29.[3] In closing Dr. Hauge emphasized a view that he had previously expressed several times. He said the fact that the President's instinct was against any change prior to 1957 should be given considerable weight in any compromise that was reached between State and Agriculture.

[3] See *infra*.

264. Memorandum of a Conversation, Department of State, Washington, March 29, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Dr. Gabriel Hauge

Agriculture
Mr. McConnell
Mr. Myers

State
Mr. Holland, ARA
Mr. Waugh, E
Mr. Cale, AR
Mr. Callanan, IRD

The greater part of the meeting was taken up by a discussion of various statistical tables prepared by State and by Agriculture. The tables showed the relative position of Cuba under the present law, the domestic industry's proposal, and proposals advanced by State and Agriculture.[2] The significant items mentioned during the remainder of the discussion are as follows:

(1) Dr. Hauge said he had discussed our last meeting with Governor Adams and with the President. The President remembered previous meetings with the sugar industry and Congressional leaders. Dr. Hauge commented that the President seemed to be less rigid in his position than was indicated in his handwritten note of January 27.

[1] Source: Department of State, Central Files, 811.235/3–2955. Confidential. Drafted by Callanan.
[2] See footnote 4, *infra*.

(2) Mr. Holland said that in considering the quota which Cuba would have under the various proposals it was necessary to keep in mind that they all overstated Cuba's position. He felt that it would be necessary to do something substantial for the full duty countries, and thus the various figures under discussion were all too high by any amount that would ultimately be given to the full duty countries.

(3) Mr. McConnell said he had discussed the problem with Secretary Benson before coming to the meeting. Mr. Benson had instructed him that if any figure over 8.3 million tons was selected he was not to agree but to refer the matter back to Mr. Benson.

(4) Mr. Waugh reminded the group that there was some merit in the industry's contention that the Administration seemed to be taking a long time to arrive at a position on sugar legislation. He pointed out that it was on January 27 that the President had instructed the Departments of State and Agriculture to start work on legislation.

(5) Dr. Hauge said he had no authority to come to a decision on the problem today. He asked Mr. McConnell to brief Mr. Benson on where the matter stood and asked Messrs. Holland and Waugh to brief Mr. Hoover. Dr. Hauge said he believed a meeting between Mr. Benson and Mr. Hoover tomorrow would be desirable. He would discuss the problem with Governor Adams but did not want to take it up with the President unless it proved impossible to get a decision any other way.

265. Memorandum of a Conversation, Washington, March 31, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Mr. Sherman Adams, Assistant to the President
Mr. Gabriel Hauge, Assistant to the President
Mr. Morse, Under Secretary of Agriculture
Mr. McConnell, Assistant Secretary of Agriculture
Mr. Myers, Director, Sugar Division, Agriculture
Mr. Waugh, E
Mr. Holland, ARA
Mr. Cale, AR
Mr. Callanan, IRD

Governor Adams opened the meeting by saying that he had discussed the sugar problem with Mr. Hauge and was familiar with it to some extent. He believed that the disagreement between State and Agriculture should be settled by the parties who knew the most about the subject matter. He knew that the President would prefer to have it that way. If however the problem had to be turned over to the White House he would, of course, see to it that a decision was taken.

Under Secretary Morse said that he had become fearful that the Administration was losing its leadership in the sugar problem. He understood that a number of bills had been introduced in the House today and that a bill would be introduced in the Senate tomorrow. There were so many States interested in growing sugar beets that he felt Agriculture could not take the responsibility for delaying an Administration position on sugar legislation any longer. A number of important Senators, such as Senator Ellender, were pressing the Department of Agriculture very hard on sugar legislation. The Administration was depending upon these same Senators for support of its farm program and flexible price supports. To date they had cooperated very well. The Administration's farm program might be wrecked if certain key Senators became irritated about the Administration's handling of sugar legislation. He therefore had felt that the White House should be advised of the disagreement between State and Agriculture.

Mr. Adams said he was aware of the possibility that there would be some vote swapping in connection with farm legislation,

[1] Source: Department of State, Central Files, 811.235/3–3155. Confidential. Drafted by Callanan.

and this was of course always dangerous. He asked to what extent the adoption of Agriculture's position on sugar legislation would create chaos with our treaty obligations with Cuba. He added that the President did not like to welsh on an agreement whether it was an agreement he made or a previous administration had made. The President had a strong aversion against breaking faith with anyone and did not want to see an agreement which State had negotiated with the Cubans upset before its expiration. Mr. Adams asked what our posture would be before foreign countries if Congress forced us to break the terms of our treaty with Cuba. Mr. Morse said that it was a question of the Cubans not receiving their full expectations under present legislation, rather than any treaty commitment. He said the Cubans had called on him and indicated they relied heavily on present legislation running its course. At the conclusion of the present Act they wanted a long term agreement guaranteeing the amount of sugar they could export to the United States.

Mr. Holland commented along the lines indicated in previous memoranda of conversation on this subject. He pointed out that the Executive Branch had expected the legislation to run its full term and that the record of the hearings on the legislation in 1951 so indicated. He concluded by saying that he felt strongly that it was desirable to allow present legislation to run its full course, and that he did not believe the sugar interests could get a bill through Congress by themselves. He said their proposal was economically and morally bad, and that it was also bad from the standpoint of our foreign political relations. The industry proposal would be retroactive in its effect on Cuba and the Cubans would prefer to have the present law and take their chances in 1957.

Governor Adams asked whether or not it would be possible to convince the Cubans that it would be in their best interests to amend the Sugar Act now. He pointed out that they could be told their views had been carefully considered at high levels in the Government and that a decision had been made as to what appeared to be best for everyone over the long run. He was concerned over the fate of H.R. 1[2] in the Senate and did not like to see new difficulties created. Mr. Holland said he did not believe that full negotiations with the Cubans would mitigate the adverse political repercussions that were bound to follow if Cuba were injured by new sugar legislation. He would only be in a sound position if legislation were not retroactive in effect. If any legislation were effective prior to January 1, 1957 he believed it might be necessary

[2] Reference is to a bill to extend the authority of the President to enter into trade agreements enacted June 21, 1955, as P.L. 86. For text, see 69 Stat. 162.

for him to go down to Cuba to explain why the Administration had taken such a decision.

Dr. Hauge said he too was concerned about any retroactive legislation and believed we had to start measuring from the amount of sugar Cuba marketed in the United States last year. Mr. Holland disagreed and said the measuring should begin from 8.5 million tons which was the estimated consumption this year. A lengthy discussion followed of the statistics on consumption and distribution and Cuba's position in the market at various levels. Dr. Hauge said he was very much concerned about one aspect of this problem. The President had instructed Mr. Benson to get an Administration position on sugar legislation. He did not like it to appear Mr. Benson was incapable of developing an Administration position. A discussion followed of various leaks of information to the domestic sugar industry. It was pointed out that some persons in private industry knew what State and Agriculture's positions were and also knew in advance when meetings would be held on this subject. Governor Adams said that this present discussion was to be considered of a privileged character and that the President did not relish information on disagreements within the Executive Branch being leaked to outsiders.

Mr. Waugh commented that State and Agriculture had been bargaining in good faith on this problem for some time. It was an immensely complicated problem and took a lot of everyone's time. The industry was being somewhat unreasonable in their approach but we should remember that they had now been waiting for an answer from the Administration for quite a long time. Mr. Holland reiterated his previous remark that on economic grounds, moral grounds and foreign political grounds nothing should be done for the sugar industry this year. He said he was aware that domestic political considerations were the fourth element to be reckoned with and that there was frequently a conflict. If a decision were taken on the basis of domestic political considerations he merely wanted it to be abundantly clear that it was on that basis alone that a decision was taken. He added that in his opinion we would be buying peace with the sugar industry at much too high a price. Mr. Morse said he was wondering whether or not we should have an annual review of sugar legislation. He did not believe there was any long term commitment to Cuba and certainly believed if there was one we should be extremely careful never to get in this position again.

A discussion followed of the nature of our obligations to Cuba. A document bearing on this subject prepared by the State Department was circulated. Mr. Myers said that he had been the Administration's spokesman in 1951 and believed the record was clear that there had been a general expectation that the legislation would run

its four year course but that there had not been any agreement with Cuba. He read several passages from his testimony including his assurance to Congressman Andersen[3] that there was "no understanding or agreement or commitments with Cuba or any other country".

Mr. Waugh attempted to get the meeting back to a discussion of the figures around which the disagreement between State and Agriculture centered. Reading from a table he pointed out just how much relief would be given the domestic industry this year and next year when consumption was shared over 8.3, 8.350 and 8.4 million tons.[4] There was, however, no resolution of the issue over which State and Agriculture were deadlocked.

Governor Adams in closing the meeting said that he assumed that when the Congressional committees asked us for our views on a bill we would then get an Administration position for presentation to the Congress. He said that he thought this should be to oppose the industry's bill and to state that if it were considered necessary by the Congress to alter the existing law the changes should not be more adverse to Cuba than the position agreed upon by the Administration.

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[3] Herman C. Andersen (R.–Minn.).

[4] In a March 31 memorandum for Waugh, Callanan noted that he and Myers had prepared statistics estimating how much relief domestic industry would be given under the various proposals and enclosed a table entitled, "Cuba's Position in the U.S. Market." He wrote in part:

"Although we have been discussing this problem in terms of tonnages, the question to be resolved is really whether anything should be done to give the domestic industry relief before the present Act expires on January 1, 1957.

"The industry wants 165,000 tons this year. Sharing increases over 8.3 would give them 50,000 tons this year. Sharing increases over 8.350 would give them 25,000 tons this year. Sharing over 8.4 would not afford any relief until 1956. Sharing over 8.5 would delay relief until 1957 or at best late 1956." (Department of State, Sugar Files: Lot 65 D 212, Revision of Sugar Act, 1955, Working Papers II)

266. Memorandum of a Conversation, Washington, April 7, 1955[1]

SUBJECT

Sugar legislation

PARTICIPANTS

Agriculture
Mr. Morse, Under-Secretary
Mr. McConnell, Assistant Secretary

State
Mr. Waugh—E
Mr. Holland—ARA
Mr. Cale—AR
Mr. Callanan—IRD

Mr. Morse opened the conversation by saying that Agriculture felt another meeting was desirable on this subject in view of Governor Adams' feeling that the problem should be resolved by those who were most familiar with it. Mr. Holland agreed that another meeting was in line with Governor Adams' wishes. He added that he did not believe any limitation had been placed on the number of meetings we might have before the matter was referred back to the White House.

Mr. Holland asked the Agriculture representatives if they had seen the latest memorandum which the Cubans had left with Secretary Benson.[2] Mr. Morse said that he had glanced at it. Mr. Holland said in view of this he would like to read certain sections of the memorandum which had made a great impression on him. He said up to this time the Cubans had wasted a lot of time making inconsequential arguments, and had for some reason waited until the last minute to provide material which merited very serious consideration. Mr. Holland proceeded to read several paragraphs from the Cuban memorandum. The Cubans pointed out that they had been forced to cut their crop progressively each year since 1952. The 2 million ton surplus from the 1952 crop had been financed by the Cubans themselves and scheduled for release to the United States market over a five-year period. In doing this the Cubans had, of course, relied very heavily on present sugar legislation running its course. If the Act were amended now to restrict their marketings in

[1] Source: Department of State, Central Files, 811.235/4–755. Confidential. Drafted by Callanan.

[2] This memorandum, entitled "Effects on Cuba of Certain Projected Amendments to the Sugar Act," is attached to Holland's April 9 letter to Hauge which is attached to the Memorandum of Understanding on Sugar Legislation, Document 272.

the United States, their marketing plan would be interrupted and they would be forced to add to their reserves whatever quantity they lost in the United States market in 1955 and 1956 by reason of a change in sugar legislation.

Mr. Holland remarked that he had just received a call from Havana from our Ambassador. He said the Ambassador felt that any change in present legislation before its expiry date would mean the fall of the present Cuban Government. Mr. Holland said he would not personally go that far, but had confidence in the Ambassador's appraisal of the Cuban situation. Mr. Holland indicated he believed the best course to follow would be for the Administration to introduce a bill effective January 1, 1957. This would impress the Cubans and other friendly countries with the fact that the Administration had lived up to a commitment. The Administration then could proceed to trade back from that date in dealing with the domestic industry, but would have accomplished a great deal in maintaining our good relations with Cuba.

Mr. McConnell said he was informed that the domestic industry had sold their bill to many Senators on the grounds that it would not cut Cuba back from its present position. In response to a question from Mr. Waugh, Mr. Callanan pointed out that this contention of the industry would be true if one considered that 8.2 million tons represented all the market the Cubans anticipated this calendar year. He went on to explain that the Secretary of Agriculture last December had estimated consumption in 1955 at 8.5 million tons. The Secretary then went on to say he was subtracting 300,000 tons from his estimate for price effect, and thus 8.2 million tons was the present level on which import quotas are based. All of this was public knowledge and the Cubans, of course, in planning their 1955 crop had based their estimate of their marketings in the United States in 1955 on the Secretary's public figure of 8.5 million tons.

[Here follows discussion of the difference of opinion between officials in the Departments of State and Agriculture.]

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267. Editorial Note

The Government of Cuba established a Bureau for the Repression of Communist Activity (BRAC) in May 1955. BRAC was to share with the United States Government any information on subversive activities that might affect the United States. Documentation

on this subject is in Department of State, Central File 737.00 for April and May 1955, and 362 for July 1956.

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268. Memorandum of a Conversation, Department of State, Washington, May 2, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

U—Mr. Hoover
ARA—Mr. Holland
E—Mr. Waugh
IRD—Mr. Callanan

The purpose of the meeting was to bring Mr. Hoover up to date on sugar legislation. Mr. Waugh and Mr. Holland told Mr. Hoover of recent conversations with Dr. Hauge, who met recently with Senator Williams[2] and Mr. Shields.[3] Mr. Holland told Mr. Hoover that Dr. Hauge's belief now was that nothing should be done to hurt Cuba this year. On the other hand Dr. Hauge believed that some means had to be found to relieve the pressure in our domestic areas this year.

In reply to a series of questions, Mr. Hoover was informed that the domestic industry's legislative proposal would be retroactive to January 1, 1955 whereas State's compromise figure of 8.4 would in effect amend the Act as of January 1, 1956. It was pointed out to Mr. Hoover that the Cubans have to make their marketing plans in December, and at that time they set their production goal. The mills begin grinding in January and all but a few have finished by May. A change in our legislation now would upset all their calculations as to how much sugar they could market in the United States this year and result in a corresponding increase in their surplus stocks. Mr. Hoover agreed that retroactive legislation would be a very bad thing and would severely damage our relations with Cuba.

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[1] Source: Department of State, Central Files, 811.235/5–255. Official Use Only. Drafted by Callanan.

[2] John J. Williams (R.–Del.).

[3] Robert H. Shields, president and general counsel of the U.S. Beet Sugar Association.

It was agreed that State's position now is no change in the Act effective before January 1, 1956, which in quantitative terms means sharing increases in consumption over 8.4 million tons. It was also agreed that we would immediately explore the possibilities of declaring sugar surplus for the purposes of Public Law 665[4] and Public Law 480[5] in order to relieve some of the domestic pressures.

[4] Reference is to the Mutual Defense Assistance Act of 1954, enacted August 26, 1954; for text, see 68 Stat. 832.

[5] Reference is to the Agricultural Trade Development and Assistance Act of 1954 enacted July 10, 1954; for text, see 68 Stat. 454.

269. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Ambassador in Cuba (Gardner)[1]

Washington, May 5, 1955.

DEAR ART: Your personal letter to me of April 29[2] indicates that the Cubans may be more optimistic than developments here would justify regarding the legislative situation on sugar.

Although we understand that Congressman Cooley[3] is in no hurry to hold hearings on sugar legislation and that he may actually be opposed to changing the Act before it runs its course, the President's advisers at the White House who are working on the problem have informed us that because of domestic political considerations they believe that something must be done this year to give domestic sugar producers some relief on the large stocks of sugar which they are carrying. We therefore regard ourselves as virtually under a White House directive to reach an agreement with the Department of Agriculture on sugar legislation to be submitted during the present session of Congress.

In a recent meeting which Mr. Waugh and I had with Mr. Hoover it was decided that the Department would not agree to legislation that would reduce Cuba's sales this year. Dr. Hauge at the White House shares this view. This would mean opposition to any law providing for sharing of increases in consumption by

[1] Source: Department of State, Central Files, 837.235/5–555. Confidential.

[2] Not printed. (*Ibid.*, Holland Files: Lot 57 D 295, Cuba)

[3] Harold D. Cooley (D.–N.C.), chairman of the House Agriculture Committee.

domestic producers until consumption reaches the level of 8.4 million tons. We also agreed that the possibility would be explored, on an urgent basis, of having domestic sugar declared surplus so that some 100,000 tons of our sugar might be used in foreign aid programs and thus afford immediate relief to our domestic sugar producers. This possibility is now being canvassed by the White House staff with the Department of Agriculture and the Foreign Operations Administration.

I am enclosing a copy of two tables that we have recently prepared in the Department and of a chart based on the tables which indicate the effect that various proposals for revision of the Act would have on Cuba's ability to supply sugar to this market.[4]

We now expect consumption in the United States this year not to exceed 8.4 million tons and it is possible that it may not exceed 8.5 million tons next year. At the 8.5 million ton level of consumption Cuba's quota, under the present Act, would be 2,956,000 tons. The tables and chart are based on the assumption that we would permit the Cuban quota to rise to this amount before the share of other foreign suppliers is increased. It is our belief, however, that foreign suppliers should be given a substantially increased participation in this market when consumption rises above the level of consumption which would give Cuba a quota of 2,956,000 tons. We believe that we cannot continue to give Cuba the same measure of preferential treatment that she has received in the past. We believe, in addition, that it is in our interest, and possibly in the long-run interest of Cuba, that the base of our foreign supply of sugar should be broadened somewhat and less exclusive reliance placed upon Cuba as a foreign source of supply.

I wish very much that it were possible to permit the present Act to remain in effect until December 31, 1956. If it is to be changed, as I suspect it will, I believe that the best treatment we can expect for Cuba would be that which she would receive under the proposal which would provide that foreign and domestic producers would share 50–50 in increases in consumption above the level of 8.4 million tons, that Cuba would receive 96 per cent of the foreign share until her quota reaches 2,956,000 tons and 60 per cent thereafter.

It is my understanding that the Government of the Philippines has recently requested that its quota also be increased, if the Act is revised at the present time. As you will note, the tables and chart make no provision for this, but the Department's decision with respect to the matter has not yet been made.

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[4] One of these tables is described in footnote 4, Document 265. The second table and the chart have not been found in Department of State files.

We have also not reached any final decision as to the relative treatment as between Cuba and other foreign countries. I am passing the foregoing on to you, however, as an indication of the direction in which our thoughts are moving. We will, of course, continue to keep you informed of developments.

With kind personal regards.

Sincerely yours,

Henry F. Holland[5]

[5] Printed from a copy which bears this typed signature.

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270. Memorandum From the Director of the Foreign Operations Administration (Stassen) to the Administrative Assistant to the President (Hauge)[1]

Washington, May 12, 1955.

SUBJECT

The Sugar Situation

Confirming our discussion this morning, I am willing to give favorable consideration to joining in a recommendation for the inclusion of 100,000 tons of United States sugar in our FOA commodity program at United States market prices on the following basis:

1. That no better alternative for the Administration handling of the total sugar problem can be devised.
2. That State and Agriculture agree to the program.
3. That upon my consultation with John Hollister[2] he is agreeable to this course of action.
4. That the Dodge Council[3] approves or at least has no objection.
5. That our regular consultation with Congressional leaders does not meet with serious objection.

[1] Source: Eisenhower Library, White House Central Files. Confidential. Attached to the Memorandum of Understanding on Sugar Legislation Between the Department of State and the Department of Agriculture, Document 272.

[2] John Hollister, Executive Director of the Commission on Organization of the Economic Branch of the Government, became the Director of the International Cooperation Administration, formerly the Foreign Operations Administration, on July 1.

[3] Reference is to the Council on Foreign Economic Policy, chaired by Joseph Dodge, established in 1954 to review foreign policy initiatives from various agencies.

6. That the Mutual Security Program for 1956 is not so seriously reduced as to make a major change in our total commodity program.

HES

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271. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Administrative Assistant to the President (Hauge)[1]

Washington, May 13, 1955

DEAR DR. HAUGE: As you may know, the Department of State representatives pointed out at the meeting yesterday in the Department of Agriculture that the sugar industry's bill would give to domestic producers the right to supply more than two-thirds of estimated increases in consumption between 1955 and 1962.[2] As Mr. Shields was not prepared to accept this statement, I am taking the liberty of giving you the reason for it. This is easier to understand, if the effects of the proposed bill are tabulated on a year-by-year basis. We have developed four tables[3] to show the effect of the proposed bill on the domestic quotas, assuming annual increases in consumption of alternatively 100,000 tons and 135,000 tons, the latter being in our view a rather optimistic estimate. One set of tables shows increases each year; the other shows cumulative increases. The tables demonstrate that on the assumption of a 100,000 ton annual increase in consumption the domestic share would be at least 70 percent of the total increase in consumption between 1954 and 1962; on the 135,000 basis, it would be at least 67.7 percent.

This result is brought about, in part, by the fact that the bill takes a consumption level of 8,200,000 tons as the basis from which to measure increases in consumption, rather than the figure

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[1] Source: Department of State, Central Files, 811.235/5–1355. Drafted by Cale.

[2] Reference is to H.R. 5406, a bill introduced by Hale Boggs (D.–La.) in the House of Representatives on March 31, which represented the sugar industry's consensus. An identical Senate bill, S. 1635, was introduced on April 1 by Senator Ellender and 48 cosponsors. The text of H.R. 5406 is in U.S. Congress, House Committee on Agriculture, "Amendments to Sugar Act of 1948," *Hearings on H.R. 5406, June 22, 23, 24, 25, 27, 28, 29, July 6, 7, 14, and 15, 1955*, 84th Cong., 1st Sess. (Washington, 1955), pp. 1–2 (hereafter cited as *Hearings*—1955).

[3] These tables have not been found in Department of State files. Copies of them can be found as enclosures to the signed original of this letter; see footnote 4 below.

8,350,000 tons, which is the consumption level which the Department of Agriculture estimates was actually reached last year. The fact that domestic producers would be given 100 percent of the first 188,000 tons above the 8,200,000 ton level is, of course, also a very large factor.

If present unofficial estimates by Department of Agriculture officials that consumption this year will be about 8,400,000 tons should prove correct, the estimate of 8,350,000 tons for last year is probably too high and should perhaps be reduced to around 8,300,000 tons. This would increase the estimated increase in consumption this year by about 50,000 tons and make the domestic share a somewhat smaller part of the total increase. On the other hand, if the level of consumption estimated this year is taken as the point from which increases in consumption should be measured, as I believe it should be in order for the bill not to have a retroactive effect, the share going to domestic producers would be an even larger part of the total increase. Their share would, of course, be still larger if increases in consumption were measured from the 8.5 million ton level which it will undoubtedly reach before the present Act expires.

Sincerely yours,

Henry F. Holland[4]

[4] Printed from a copy which bears this typed signature. The signed original is in Eisenhower Library, White House Central Files, attached to the Memorandum of Understanding on Sugar Legislation, *infra*.

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272. Memorandum of Understanding Between the Department of State and the Department of Agriculture[1]

Washington, June 3, 1955.

MEMORANDUM OF UNDERSTANDING ON SUGAR LEGISLATION

The following general propositions are agreed to with respect to the pending problem of sugar legislation:

[1] Source: Eisenhower Library, White House Central Files. Secret. Sent to Under Secretary Hoover under cover of a memorandum of June 13 from Hauge to Hoover. The source text has signature lines for the Department of State and the Department of Agriculture but no signatures.

1. The Administration should proceed to carry out the President's intent as stated to the Senators and Congressmen from the sugar States some weeks back that sugar legislation should be enacted this year.

2. Hearings should be started in the House in time to provide adequate consideration there and in the Senate before the end of July.

3. There should be an Administration position, not separate State and Agriculture departmental positions.

4. The operation of the formula in the present law should not be disturbed during 1955.

5. Means should be found to provide some relief to domestic producers in 1955 from burdensome inventories.

6. New legislation to be passed this year should become effective in 1956.

With respect to more detailed considerations, these conclusions have been agreed to:

1. The Administration can support the principle of permitting the domestic industry to share in providing the increase in domestic consumption.

2. The Administration can support, effective next year, a position of sharing on a basis of fifty-five percent for the domestic suppliers and forty-five percent for foreign suppliers above an 8,350,000 ton level of prospective requirements.

3. A purchase program of 100,000 tons to help meet FOA requirements can be undertaken for the fiscal year beginning July 1, 1955 in such a way as to assist the domestic industry in dealing with its inventory problems.[2]

[2] An attached background paper on sugar legislation, which discusses the nature of the domestic surplus problem and the purchase program, is not printed.

273. Supplementary Notes of a Meeting Between the President and Legislative Leaders, Washington, June 8, 1955[1]

Sugar Act—In this presentation for amendment of the Sugar Act, Mr. Hoover, Jr. stressed Cuba's internal problems, and also its expectations that it would get a major share of future growth of the U.S. market in return for having taken a cut in its quota two or three years ago. At present, Cuban sugar exports had not yet regained their former high level.

[1] Source: Eisenhower Library, Whitman File, Legislative Meetings, 1955. Confidential. Drafted by Minnich.

Sen. Saltonstall[2] pointed out New England's interest by virtue of refineries that used Cuban sugar. He said that limitation of Cuban imports would restrict New England refineries and thus actually cause a tax loss to the U.S. Treasury.

Rep. Millikin stressed that there had never been any understanding among Senators involved in the earlier legislation that Cuba would have any monopoly of the market growth.

The President ascertained that the current law expired at the end of 1956. He subsequently pointed out that he had agreed to a 1955 *submission* of new legislation because of the intense interest of American sugar producers, and because submission of legislation would not in itself modify the existing legislation to run through 1956. He wanted it made clear that the additional proposal of changing the *1956* [law?] in the course of action on the new legislation was something that went beyond anything he had agreed to.

The Vice President noted how restriction of Cuban imports would have the effect of limiting Cuba's ability to purchase the things we want to export. He said he was being pressed from both sides.

Mr. Morse[3] pointed out how Cuban production had been terrifically increased after World War II.

Mr. Hoover cited Cuban unemployment statistics and the pressure of Communist activity in Cuba. Action on the sugar quotas, he said, with an adverse effect on Cuba, would have very deep political implications with regard to our fight against Communism.

Mr. Morse pointed to the current distress caused American farmers by low prices. The new quotas could give them some relief.

Sen. Millikin said he had sympathy for Cuba, but had to be concerned first of all with the domestic aspects. He hoped that Administration people, in talking to representatives of the sugar industry would be sympathetic to them.

It was agreed that the proposal presented by Messrs. Morse and Hoover afforded the most reasonable compromise of these conflicting considerations. Unfortunately, Mr. Morse said, it would mean that everybody affected would be very unhappy!

The compromise was one of enacting new legislation in '55 which would not change the 1955 crop quota but would change the '56 quota, and would provide for dividing future market growth between domestic and foreign producers, with Cuba getting 96% of the 45% foreign share.

[Here follows discussion of unrelated matters.]

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[2] Leverett Saltonstall (R.–Mass.).

[3] Senator Wayne Morse (D.–Ore.).

274. Editorial Note

On June 14 representatives of the United States and Cuba signed a joint agreement on rice which replaced the agreement of December 17, 1952. The December agreement had established a method for determining Cuba's annual rice import quota in connection with a GATT concession on rice. Under the June agreement, Cuba's basic quota of 3,250,000 quintals from the United States continued to become effective each July 1. In addition, Cuba was required to announce on the following February 15 for implementation after April 1 any additional quota needed to satisfy annual import requirements. Details of this agreement were transmitted to the Department of State in despatch 1265 from Habana, June 17. (Department of State, Central Files, 837.2317/6–1755) Documents pertaining to the operation of the rice quota system are *ibid.*, 837.2317.

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275. Circular Telegram From the Acting Secretary of State to the Embassy in Cuba[1]

Washington, June 22, 1955—4:15 p.m.

737. Administration position revision sugar act announced hearings House Agriculture Committee June 22.[2] Recommendations:

1. No change 1955 quotas.

2. Beginning Jan. 1956 domestic areas would receive 55% increases in consumption above 8,350,000 tons.

3. Cuban participation share foreign suppliers other than Philippines to remain 96 per cent through 1956.

4. Beginning Jan. 1957, Cuban share of increases consumption above 8,350,000 tons would become 60%; full duty countries' share 40%. No change Philippine quota.

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[1] Source: Department of State, Central Files, 811.235/6–2255. Drafted by Mulliken and approved by Cale. Also sent to Ciudad Trujillo, Port-au-Prince, Mexico City, Panama City, and Lima.

[2] On June 22 Holland presented the recommendations of the administration concerning sugar legislation to this committee. His statement and the Department of State's report to the committee dated June 22, signed by Thruston B. Morton, Assistant Secretary of State for Congressional Relations, are printed in *Hearings*—1955, pp. 11–17. Cooley introduced H.R. 7030 for the executive branch on June 27.

5. Beginning Jan. 1957, 12,000–14,000 tons full duty country quota would go small countries which fill quotas regularly. Remainder be divided regular suppliers this group basis U.S. imports from them 1951–1954.

Hoover

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276. Memorandum of a Conversation, Department of State, Washington, July 1, 1955[1]

SUBJECT

Cuban Revolutionary Activities

PARTICIPANTS

Ambassador Campa of Cuba
Mr. Holland—ARA
Mr. Hoyt—MID

Cuban Ambassador, Dr. Angel de la Campa, called at his request on July 1, 1955, to discuss "revolutionary activities" with Mr. Holland. Dr. Campa said that he was calling concerning this matter under direct instructions from President Batista. Dr. Campa left two documents purporting to show continued plotting against the Batista Government[2] by ex-President Prio[3] and his group. Dr. Campa pointed out that the Prio-ites are continuing to operate with the United States as their base, and that arms from the United States are entering Cuba for use in "revolutionary activities."

Mr. Holland told the Ambassador that our Customs officials in Florida are spending a great deal of time following these activities of the Cuban exiles, but that it is difficult to control all of their movements. Mr. Holland said that the United States policy of granting safe-haven to political exiles is, of course, well-established; but pointed out that the exiles are made welcome here with the understanding that they will obey our laws.

Mr. Holland asked the Ambassador to assure President Batista that this question would receive the serious consideration of the State Department.

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[1] Source: Department of State, Central Files, 737.00/7–155. Confidential. Drafted by Hoyt.

[2] Not found in Department of State files.

[3] Carlos Prío Socarrás was President of Cuba from 1948 to 1952.

277. Memorandum of a Conversation Between the Officer in Charge of Caribbean Affairs in the Office of Middle American Affairs (Hoyt) and the Chief of the Economic Section of the Cuban Ministry of State (Meyer), Department of State, Washington, July 13, 1955[1]

SUBJECT

Sugar

Ambassador Meyer said that he, Ing. Amadeo Lopez Castro and Dr. Arturo Mañas had returned to Washington because it now looked as if there might be more chance sugar legislation would be forthcoming in this session of Congress. He said the Cubans were also concerned over rumors that Chairman Cooley desired to give greater benefits to the full duty countries. Dr. Meyer said he presumed this was a move on Cooley's part and did not represent the Administration's point of view. I assured him that the Administration had made its statement on the division with the full duty countries and that this was still the Administration's position.

Ambassador Meyer also said that the Cuban Foreign Office had delivered to our Embassy on July 12 a note[2] again protesting any change in the Sugar Act before January 1, 1957 and setting forth arguments against the division proposed by the Administration of the quota between Cuba and the full duty countries. It was evident that the Cubans are more concerned about the full duty division than they are the proposals made regarding the regular domestic and Cuban quotas. Dr. Meyer pointed out that any change in the Act prior to 1957 would present the Cubans with a very difficult domestic political situation because it would be "impossible" to explain to the Cuban public. He referred to Cooley's proposal that 60 or 70 thousand tons of sugar be purchased in 1956 to compensate Cuba for the loss it would take under the Administration bill. He indicated that Cuba would be interested in such a proposal because it would then give them an answer to Cuban criticism of a change in the Act.

In answer to my question the Ambassador said that he and his group had come with full authority to indicate the extent to which Cuba was prepared to compromise on sugar legislation should they be asked. Dr. Meyer did not indicate what his instructions were.

As I have with other Cubans, I emphasized to Ambassador Meyer that his government should give careful consideration as to

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[1] Source: Department of State, Central Files, 811.235/7–1355. Official Use Only. Drafted by Hoyt.

[2] Not printed. (*Ibid.*, 837.235/7–1855)

the political climate next year before insisting that there should be no change in sugar legislation this year. I pointed out to him that Chairman Cooley has stressed throughout the question of a "moral agreement" with Cuba and that once that consideration was eliminated with termination of the Act next year Mr. Cooley's attitude towards legislation might change and that other members of the Committee who have shown sympathy for the Cuban position might also feel that any obligation to Cuba had been fulfilled. Dr. Meyer said that he and his Government understood this perfectly and that this was one of the reasons why the Cuban group had returned to follow the hearings closely.

Comment:

Given the complicated nature of the sugar legislation it probably wouldn't do any good to discuss with the Cubans just how far they are willing to go because we probably couldn't meet their wishes. Nevertheless, if legislation should get so bogged down that it can't be passed at this session, it might be well between now and January to ascertain the Cuban views. I again gained the impression that the Cubans are not too upset over the main part of the Administration's proposals but that they [redacted] feel strongly on the division between the full duty countries and Cuba. (On July 13 Dr. Meyer gave me, on an informal basis, a copy of the note sent by the Cubans to our Embassy. I sent this copy to Mr. Holland.)

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278. Letter From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Chairman of the House Agriculture Committee (Cooley)[1]

Washington, July 18, 1955.

DEAR MR. COOLEY: During the conversations on sugar legislation in your office which I attended on July 8 and July 15,[2] two

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[1] Source: Department of State, Central Files, 811.235/7–1855. Drafted by Cale. Cleared in the Department of Agriculture.

[2] In these two meetings, Cooley met with representatives of the House Agriculture Committee and the Departments of State and Agriculture in order to discuss the possibility of obtaining agreement on sugar legislation before the current session of Congress ended. In the July 8 memorandum of conversation, Cale reported that Congressmen William R. Poage (D.–Tex.) and Cooley had been impressed with the need for honoring the moral commitment to Cuba not to reduce its participation

questions of particular concern to this Department were discussed, namely, (1) the division of their share of the United States market among Cuba and the full duty countries, and (2) the nature of the provision in any new sugar legislation which is required by virtue of the fact that some of the full duty countries, particularly Peru, are not members of the International Sugar Agreement.

I believe that it is accurate to say that the various considerations regarding the relative shares of Cuba and the full duty countries which we discussed in your office were very much the same as those which the Executive branch, particularly the State Department, has had under consideration for the past several months and that they were carefully weighed before the Department addressed its report on H.R. 5406 to you on June 22. My testimony before the House Agriculture Committee on the same date also reflected the recommendations of the Department on this matter. In the belief that your Committee might wish, before it takes action, to have a fuller explanation of the Administration's recommendation on this question, I am enclosing a memorandum entitled "Rationale of Administration's Recommendations Regarding Distribution of Sugar Quotas Among Foreign Suppliers".[3] This is done with no desire to delay or interfere with action by your Committee and in full recognition of the fact that the Committee may accept, reject, or modify the Administration's recommendations on this or other matters.

As you will remember, the Department has made no recommendation regarding your suggestion that the new sugar legislation contain a provision to the effect that those full duty countries which by January 1, 1957 are not members of the International Sugar Agreement[4] should not benefit by any increased quotas under the Sugar Act and that the increased quotas to which they might otherwise be entitled should be distributed among the other full duty countries. The Department recognizes that such a provision might facilitate the operation of the Sugar Act by affording greater assurance as to the exact size of the quotas of the full duty countries. It is the Department's view, however, after careful consid-

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below the level which it would have reached during 1956 under the present act. But they questioned the desirability of permitting Cuba to continue to increase its participation beyond that level. Holland replied he thought it desirable to permit the full-duty countries, the domestic areas, and Cuba all to grow. (*Ibid.*, 811.235/7–855)

In Cale's memorandum of conversation of July 15 describing the meeting that day, he wrote that Holland stressed that any cut in the Cuban share beyond that recommended by the administration might adversely affect U.S. relations with Cuba. Holland added that any division of the foreign share that was very unfavorable to Cuba might result in the fall of the Cuban Government which had been cooperating very closely with the United States. (*Ibid.*, 811.235/7–1555)

[3] Not printed.

[4] Reference is to the agreement concluded at London, October 1, 1953, and entered into force May 5, 1954; for text, see 6 UST 203.

eration, that the disadvantages of the provision would outweigh its advantages.

Peru and several other full duty countries with smaller quotas in the United States market are not members of the Sugar Agreement. In the case of the smaller sugar producing countries their non-participation in the International Sugar Agreement has probably been the result of the fact that they export such small quantities of sugar to the world market as to make their participation in the Agreement of questionable value to them. In the case of Peru, non-participation was apparently the result of Peru's dissatisfaction with the quota which Peru was offered at the conference at which the Agreement was negotiated.

The difference between the quota which Peru was offered under the Agreement and the one she requested was only 50,000 tons and it is believed that this might have been narrowed through further negotiation. The failure of the Peruvian Government to obtain what it considered an equitable quota has, nevertheless, been a somewhat disturbing factor in Peruvian relations with countries which agreed to participate, including the United States. Implementation of Article 7 of the Agreement, which limits imports of sugar by participating importing countries from non-participating exporting countries to the absolute amount of sugar imported from such countries during a base period, may be something of a problem in United States relations with Peru. In accordance with the provisions of this Article, the United States will be unable to increase its imports of sugar from Peru, as it would if recognition did not have to be given in H.R. 7030 to our obligations under the Sugar Agreement. During the recommended duration of H.R. 7030, Peru's quota in the United States market would otherwise increase by enough to take care of Peru's present excess exportable production, even if Peru were to accept the quota it was previously offered under the International Sugar Agreement. It is likely, therefore, that Peru will find it advantageous, if H.R. 7030 is approved, to accede to the Agreement. It is believed that it would not be desirable, however, to provide that she must accede by any particular time. Even now Peru is in the position of having to negotiate for accession to, and a quota under, the Agreement with countries which might benefit by her non-accession, especially since Peru's failure to accede would mean that they would receive larger quotas in the United States market. To require that she must accede by any particular time might very well

place her at an increased disadvantage, making her negotiation for accession even more difficult.

Sincerely yours,

Henry F. Holland[5]

[5] Printed from a copy which bears this typed signature.

279. Memorandum of a Conversation, Washington, July 22, 1955[1]

SUBJECT

Sugar Legislation

PARTICIPANTS

Dr. Gabriel Hauge, Economic Assistant to the President
Mr. True D. Morse, Under Secretary of Agriculture
Mr. Lawrence Myers, Chief, Sugar Branch, Department of Agriculture
ARA—Mr. Holland
H—Miss Kirlin[2]
IRD—Mr. Nichols
TAD—Mr. Weiss[3]
AR—Mr. Cale

Mr. Holland stated that he had asked that the group meet in order to consider what the Administration's position should be regarding the sugar bill recommended by the House Agriculture Committee.[4] Mr. Holland indicated that it was the State Department's view that the proposed division of their share of the market between Cuba and the full duty countries was too hard on Cuba. He also called attention to the very arbitrary way in which the quotas

[1] Source: Department of State, Central Files, 811.235/7–2255. Limited Official Use. Drafted by Cale.

[2] Florence Kirlin, Acting Deputy Assistant Secretary of State for Congressional Relations.

[3] Leonard Weiss, Assistant Chief of the Trade Agreements and Treaties Division, Bureau of Economic Affairs.

[4] On July 21 the House Committee on Agriculture approved an amended sugar bill (H.R. 7030) which provided for market quotas above 8,350,000 tons to be evenly divided between domestic and foreign producers in 1956, with 48 percent of the latter going to Cuba and the remaining 2 percent to other foreign countries. In 1957, the foreign suppliers would receive a statutory quota of 175,000 tons and an additional 45,000 tons each year thereafter out of consumption increases. Cuba would supply the balance, if any, between the annual increment of 45,000 tons to the full duty countries and the foreign share of increases in consumption.

of the principal full duty countries had been determined. It was agreed that Mr. Holland, on the basis of data to be provided by Mr. Myers and Mr. Cale, would recommend the position that the Administration should ask support regarding the distribution among foreign countries of the foreign share of increases in consumption.

Mr. Morse stated that Agriculture would have to oppose the 90 per cent parity provision in Section 20 of the bill. He also stated that he was of the opinion that the State Department would wish to recommend deletion of the punitive provisions contained in Section 8 of the bill. There was general agreement that the provision in Section 8 which would penalize countries which export sugar to the United States if they reduce their importation of United States agricultural products materially below the level reached during a representative base period should be removed. There was also agreement that the Executive branch should oppose the provision in Section 8 which requires accession to the International Sugar Agreement by January 1, 1957, if countries which export sugar to the United States market are to benefit by increased quotas under the Sugar Act.

There was considerable discussion of the provision in Section 8 which provides that the quota of a country may be reduced if it is not filled as a result of shipment to other markets in which prices may temporarily be higher than in the United States. Dr. Hauge, Mr. Holland, Mr. Nichols and the Agriculture representatives indicated that they considered the provision to be reasonable. Mr. Weiss, on the other hand, argued that the provision would violate the general principle of operating quotas in such a way as to interfere as little as possible with normal competitive processes. He also stated that he was of the opinion that the provision would violate our commitments under GATT. It was the consensus that the Executive branch should favor deletion of Article 8 in its entirety on the ground that the Act should not contain punitive provisions of the type in question. It was understood, however, that no last ditch fight would be made to obtain deletion of the provision under which foreign countries might be penalized for failure to fill their quotas in order to obtain a higher price elsewhere.

Mr. Morse indicated that the Department of Agriculture was of the opinion that the Administration should seek to obtain restoration of the provision which would divide[6] increases in consumption on a 55–45 basis between domestic and foreign producers. Mr. Cale stated that he had been informed, second hand, that representatives of the domestic industry would not oppose the 50–50 provision recommended by the House Agriculture Committee. He also pointed out

[6] Cale crossed out the word "develop" and wrote "divide" above it.

that it would be easier to work out a satisfactory distribution of the foreign share if the 50–50 division between domestic and foreign were made. Dr. Hauge apparently agreed with Mr. Morse that an effort should be made to obtain restoration of the 55–45 division previously recommended by the Executive branch.

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280. Editorial Note

On July 30 the House passed H.R. 7030 by a vote of 194 to 44. On August 1 the Senate Finance Committee approved amendments to the House bill and ordered them reported in a revised Senate bill (S. 1635). The bill was not reported to the Senate before Congress adjourned August 2. The committee version provided that any increase in United States consumption above 8,300,000 tons be supplied 55 percent by domestic producers, 25.6 percent by Cuba, and 19.4 percent by full-duty countries on the basis of their sales of sugar in the United States market during the past 4 years. It also extended the revised Sugar Act to 1962, instead of 1960.

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281. Memorandum From the Director of the Office of Regional American Affairs (Cale) to the Assistant Secretary of State for Inter-American Affairs (Holland)[1]

Washington, September 30, 1955.

SUBJECT

Mr. Morton's Memorandum of August 24 Regarding Sugar Legislation

Mr. Morton's suggestion that State take the initiative in getting the Senate Finance Committee to report out a sugar bill that embodies the Administration recommendation for sharing increases in consumption above 8,350,000 tons instead of 8,300,000 seems to me

[1] Source: Department of State, Central Files, 811.318/9–3055. Limited Official Use. Drafted by Mulliken and Callanan.

to be sound.[2] Distribution is running well ahead of last year and should approximate 8.4 million short tons for the calendar year 1955. This should strengthen our argument for sharing above the 8,350,000 ton level, if the facts can be brought to the attention of all members of the Committee in advance of the Senate hearings. We may wish to ask Agriculture's assistance in this project, since they are also committed to the Administration's proposal, and they may have better contacts than we with some Committee members.

As regards the House, the situation may not be as hopeless as Mr. Morton's memorandum would indicate. If we can get the Senate Finance Committee and the Senate to approve a bill providing for a 55–45 split above the 8,350,000 ton level, and if House Conferees refuse to accept such a bill, and the Senate Conferees refuse to give ground, I understand that the House Conferees would be obliged to seek further instructions. A spokesman for the refiners recently expressed the view that if there is time for the Cubans to marshall their forces in the House (which he thinks they did not have an opportunity to do after the Cooley Bill was reported by the House Agriculture Committee this Spring), there is a good chance that the Conferees might be instructed by the House to recede from their present position.

With reference to the proposal to purchase 100,000 tons of domestic surplus sugar,[3] it is understood that the White House expects to reach a decision on this matter early in October. Pressure for the purchase has been diminishing in the beet areas since production of sugar beets is expected to be off 12 to 13% this year. The purchase is still a matter of great concern in the domestic cane areas. In view of the fact that the Senate specifically recommended the purchase of surplus sugar, by resolution, and in view of the continued interest in this purchase in the cane areas, there would probably be some political advantage in having the purchase made before the sugar issue again comes before the Congress. It might afford the Administration useful leverage in obtaining industry support on issues relating to division of the foreign share in future increases in consumption between Cuba and the full duty countries.

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[2] In his August 24 memorandum to Holland, Morton suggested that Department of State and White House officials work with each member of the Finance Committee to persuade them of the validity of the administration's proposals. (*Ibid.*, 811.318/8–2355)

[3] Before Congress adjourned, the Senate adopted a resolution (S. Res. 147) sponsored by Long, Ellender, Spessard L. Holland, Smathers, and Senator Henry C. Dworshak (R.–Ida.) requesting the Commodity Credit Corporation "so far as practicable" to purchase 100,000 tons of domestic sugar in 1955 for distribution outside the continental limits of the United States.

282. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

Washington, December 14, 1955.

SUBJECT

Cuban Note Protesting Proposed Sugar Legislation

Discussion:

There is attached (Tab A)[2] a translation of a note received from the Cuban Embassy reiterating the opposition of the Cuban Government to sugar legislation pending in the United States Congress. The arguments, most of which have been made by the Cubans many times before, are directed principally against the Cooley Bill although the Administration proposals—particularly the division of the quota between Cuba and the full duty countries—are also criticized. The Cubans asked that the note be brought to your attention. In addition to this note, the Cuban Foreign Minister just recently wrote a personal letter to the Secretary arguing Cuba's position.[3]

The main points of the note are:

1. The Cooley Bill would result in Cuba's becoming the last residual supplier of the U.S. market.
2. An increase of the quotas of the full duty countries at Cuba's expense will encourage those countries to expand their sugar industries at a time when there is already a serious world sugar surplus situation.
3. Cuba's U.S. sugar quota is a counterpart of the preferential treatment enjoyed by the U.S. in the Cuban market and an integral part of the concessions and compensations in the trade relations between the two countries. The proposed changes in sugar legislation represent a fundamental departure from what has been, for more than 50 years, the basis of economic relations between Cuba and the United States.
4. The Department is requested to reconsider and revise the proposed legislation to avoid the approval of the provisions which Cuba considers detrimental to its interests.

In compliance with your instructions, the Cubans have been informed by my office on several occasions recently that the Administration intends to continue to support the proposals it made during

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[1] Source: Department of State, Central Files, 811.235/11–2855. Official Use Only. Drafted by Hoyt.

[2] Not printed.

[3] Not printed. (Department of State, Central Files, 811.235/12–655)

the last session of Congress and that the Administration also intends to oppose any modifications to its proposals (such as the Cooley Bill). It has been pointed out to the Cubans that the Administration proposals are more favorable to Cuba than any of the other proposals which have been advanced and that Cuba will continue to be by far the most favored foreign supplier. This same information was included in the Secretary's reply (Tab B) to the letter from the Cuban Foreign Minister.[4]

Recommendation:

That ARA be authorized to draft a reply to the Cuban note (1) reiterating the intention of the Administration to continue to support the proposals it made during the last session of Congress; (2) pointing out that Cuba still remains by far the most favored foreign supplier, and (3) explaining that the legislation was drafted only after long consideration and after taking fully into account the various foreign and domestic interests, including Cuba.[5]

[4] Not printed. (*Ibid.*, 737.13/12–855)

[5] Hoover approved this recommendation and in a memorandum of December 17 to Holland, attached to the source text, wrote: "I suggest that we point out to the Cubans, also, that the Administration position restores the growth percentage to its historical position, and that it does not represent a reduction from the long-time accepted figure. We had great difficulty in retaining even this advantage for Cuba."

283. Editorial Note

The Senate Finance Committee discussed H.R. 7030 after Congress reconvened in January 1956. In testimony before this committee on January 16 Holland underlined the negative impact of H.R. 7030 on Cuba's economy and inter-American trade and repeated the Department's recommendations. For text of Holland's testimony, see Department of State *Bulletin*, January 30, 1956, pages 172–174. On February 9 the committee approved an amended bill which allotted Cuba a 33.8 percent share of increases in consumption above 8,350,000 tons effective retroactively to January 1, 1956. This amended version of the bill was forwarded to the Senate shortly thereafter. The conference bill which passed Congress on May 17 became the Sugar Act of 1956, Public Law 545 (70 Stat. 217), when signed by the President on May 29. The new act extended the Sugar Act of 1948 until December 31, 1960, and was retroactive to January

1, 1956. It raised the quota to 8,350,000 tons and provided that increases in consumption exceeding that figure would be divided 55 percent to domestic and 45 percent to foreign suppliers. Cuba's share of the allotment to foreign suppliers remained at 96 percent, with 4 percent to other full-duty countries throughout 1956, but thereafter, Cuba's share would be reduced to 29.59 percent.

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284. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Secretary of State[1]

Washington, May 8, 1956.

SUBJECT

Cuban Political Situation

The abortive armed civilian attack on Cuban Army barracks near Matanzas[2] on April 29 culminated a series of events which have weakened the position of President Batista. Nevertheless, there appears to be no immediate danger of the overthrow of his Government. The President remains firmly in control, but he has been forced to adopt stern measures including the suspension of constitutional guarantees for forty-five days and a sweeping reorganization of the armed forces from which he derives his major support. The injection of military dissension into the opposition picture for the first time poses for Batista his most serious political test to date. Furthermore, there is danger that a resort to stronger measures may consolidate public opinion, which heretofore has been apathetic, against the regime. The past month in Cuba, prior to the Matanzas affair, witnessed the uncovering of an Army plot to overthrow the Government, resulting in the court-martial of 13 officers and the arrest, dismissal and retirement of over 100 others; student manifestations throughout the Island which resulted in the closing of all secondary schools and universities and the violation by the National Police of the hitherto respected autonomy of the University of Habana; and accelerated activities by opposition political forces, particularly by ex-President Prio and his followers. While the Communists have tried to identify themselves with these anti-govern-

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[1] Source: Department of State, Central Files, 737.00/5–856. Confidential. Drafted by Leonhardy.

[2] A province in northcentral Cuba just west of La Habana province.

ment activities, they have had little success except for some infiltration in the ranks of the students.

Against this troubled picture, and weighing in Batista's favor, are the following factors which would tend to assure his continued control: (1) the present economic prosperity in Cuba; (2) public apathy toward political events; feuding within opposition factions whose leaders are generally discredited; (4) overall continued government support from the Army; and (5) the desire of labor leadership for a peaceful solution of Cuba's internal political problems.

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285. Memorandum of a Conversation, Ambassador's Residence, Panama City, July 23, 1956[1]

PRESENT:

The President	President Batista
The Secretary of State	Foreign Minister Gonzalo Guell
Dr. Milton Eisenhower	
Asst. Secy Holland	
Mr. Jack D. Neal (MID)	

After an exchange of pleasantries, President Batista expressed his concern regarding the sugar situation, pointing out that sugar comprises 87% of Cuba's exports; therefore, the economy of the country depends greatly upon that one product. He indicated the present poor condition of the world sugar market was having a bad effect in Cuba. He is attempting to alleviate the economic situation by a public works program, but that is going slow at the present time. He stated the heavy investment of United States private capital—$400 million.

President Batista handed President Eisenhower an aide-mémoire (copy attached) making certain recommendations for improving trade relations between Cuba and the United States and a better coordinated technical cooperation program for the economic and social development of Cuba, suggesting that a special Cuban-United States

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[1] Source: Department of State, Conference Files: Lot 62 D 181. Official Use Only. Drafted by Neal. The source text bears Holland's initials. A handwritten note on the source text indicates that William B. Macomber, Special Assistant to the Secretary, approved the memorandum for distribution. This conversation occurred after the meeting of the American Presidents in Panama City on July 21–22; see Documents 109 ff.

Commission of experts be established to study these recommendations.

President Eisenhower stated he is always pleased to study all suggestions made by our sister Republic. However, the American form of government is such that it is impossible to make promises as to what we can or cannot do. The President commented that from his observation everyone is mad about the sugar situation—but that we have to work on these problems without getting angry—he emphasized that we could not take unilateral action and do as we please.

President Batista stated with reference to the Point IV Program[2] he had not obtained the technical expert he felt was required. He wants an expert on crop diversification.

President Eisenhower said this was the type of information he wished to have and he would like for President Batista to set forth in a memorandum just exactly what his requirements are and that his government would get busy on the matter. President Batista said he would get this information to Assistant Secretary Holland.

In a discussion of the merits of technical assistance by the United Nations and that by the United States, President Batista expressed his preference for United States assistance since it provided greater facilities.

Secretary Dulles stated we had found from our experience in other parts of the world that bi-lateral agreements on Point IV were preferable to the broad coverage of the UN.

President Eisenhower stated the press was waiting outside and desired photographs if he had no objections. President Batista stated it would be a pleasure for him.

Photographs were taken on the steps of the Embassy entrance.

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[2] For documentation of the administration of this technical assistance program by the Foreign Operations Administration (FOA), established on August 1, 1953, see *Foreign Relations*, 1952–1954, vol. I, Part 1, pp. 227 ff.

[Attachment]

REPUBLIC OF CUBA

Executive Power

Aide-Mémoire[3]

Major General Fulgencio Batista y Zaldívar, President of the Republic of Cuba, presented his compliments to General Dwight D. Eisenhower, President of the United States of America, and expressed his pleasure at having had the opportunity to meet and converse with him personally during the Meeting of American Chiefs of State that has just been held in Panama.

Although the Republic of Cuba fortunately does not at present have any serious problem pending in its relations with the United States of America, President Batista was grateful for the opportunity offered him by President Eisenhower to exchange impressions on the possibility of improving their relations even more.

This can, in President Batista's opinion, be done by:

1. Studying the terms of trade between the two countries, with a view to making them mutually advantageous through the adoption of such measures as may be considered adequate.

2. Favoring Cuba's plan for establishing new customs tariffs, more modern and technical than those that have been in force since 1927, but somewhat tentative in character, with the object, now, of simplifying and increasing Cuba's foreign trade, as far as possible avoiding losses in foreign exchange, and promoting the economic development of the country.

These new tariffs are to come into force at the expiration of the present GATT contractual period, December 31, 1957, and renegotiation of the commercial treaties that Cuba has signed will be arranged.

The most important of these agreements is that with the United States, which should be re-examined in the light of the new Cuban tariffs, when the latter are ready to come into force, while maintaining the existing preferential treatment between Cuba and the United States of America, so that the commercial relations between the two countries may continue to progress at their traditional pace and to our mutual advantage.

3. Studying the possibility of better coordinated and more efficient technical cooperation in the economic and social development of Cuba; studying ways in which the financial contributions of Cuba

[3] The source text is a translation done by the Department of State's Division of Language Services.

to the International Monetary Fund and the International Bank for Reconstruction and Development can yield some profit for the Republic of Cuba; and seeking to promote the movement of private and public capital toward the economic and social development of Cuba.

In order to achieve these objectives, it would be advisable to appoint a Cuban-American Commission made up of a small number of experts from the competent institutions in both countries, to study confidentially and separately the afore-mentioned objectives, in their countries, and to consider jointly and alternately in the respective capitals, from time to time, the direction to be taken in their studies, the results of their work and the recommendations that should be made to their Governments, without prejudice, as a supplement, rather, to the organization and functioning of the dynamic procedure so foresightedly set forth by President Eisenhower in yesterday's speech, with the proposal to give the OAS an instrument of effective and concrete action.

PANAMA, July 23, 1956.

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286. Telegram From the Ambassador in Cuba (Gardner) to the Secretary of State[1]

Habana, October 16, 1956—8 p.m.

177. Following submitted to assist in evaluating situation outlined Department's 219.[2]

Government and opposition circles and press continue predict insurrectionary attempt before year-end probably next few weeks. Government maintains publicly plans call for uprisings and coordinated invasions from Central America and Dominican Republic and that all elements opposition involved. Privately, government apparently discounts possibility assistance from Dominican Republic, but insists Carlos Prio deeply involved.[3] Evidence this point inconclusive.

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[1] Source: Department of State, Central Files, 737.00/10–1656. Secret. Repeated to Cuidad Trujillo. Copies were passed to Department of Defense, CIA, and FBI.

[2] In telegram 219, October 13, Hoover expressed the Department's concern with the signs of political ferment throughout Central America and the Caribbean and requested information on the political climate in these countries and on relations with neighbors. (*Ibid.*, 713.00/10–1356)

[3] See *infra*.

Principal opposition elements involved appear Fidel Castro movement,[4] remnants Sanchez Arango organization, so-called Revolutionary Directorate Federation University Students under leadership Jose Antonio Echevarria,[5] and small miscellaneous groups. They now reportedly engaged efforts promote general strike near future. Reports from various sources indicate Communist Party preparing take advantage general strike and accompanying disorders if possibility success assured apparently acting independently and not on basis prior agreement with other opposition elements. Secretary General Mujal of Cuban Confederation Workers[6] has stated publicly his organization non-political, will not participate general strike for political purposes. Mujal recently emphatically reaffirmed this position private conversation Embassy officers adding general strike has no chance success without sponsorship Confederation Workers. Castro and Echevarria may be sponsoring general strike, knowing it cannot succeed, as means avoid charge failure comply their public commitment undertake insurrectionary attempt this year.

Some reports from civilian opposition groups indicate they expect assistance armed forces. Some discontent of undetermined extent exists within armed forces, and persons closely associated with these elements speak very confidently. However they deny collaborating any way with civilian groups.

People enjoying high-level prosperity for Cuba and in general politically apathetic. Opposition disunited, and there no evidence insurrectionary groups have large following within country. Government displays utmost confidence and proceeding methodically with plans for elections 1957 and 1958.

Embassy considers some disturbance fomented by opposition likely near future, possibly along line assaults military garrisons Santiago 1953[7] and Matanzas April this year associated with call for general strike and attendant disorders. Any invasion attempt without support from military would be at best token gesture, and Embassy has no indications such coordinated support could be developed. A small and efficiently led group within armed forces could with reasonable luck manage garrison revolt similar to Batista's 1952

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[4] Reference is to the followers of Fidel Castro Ruz, the Cuban attorney and activist.

[5] Reference is to the president of the Federation of University Students, a small anti-Batista group composed largely of students from Habana University. Echevarria was killed on March 13, 1957, when he and a group of about 100 men assaulted the Presidential Palace in an attempt to kill Batista.

[6] Eusebio Mujal Barniol, labor leader and head of the Confederation of Cuban Workers.

[7] On July 26, 1953, in an effort to provoke a general uprising against the Batista government, Fidel Castro led an unsuccessful attack on the Moncada military barracks in Santiago. After this, Castro's followers were referred to as "the 26th of July club."

coup.[8] Discontented elements within army apparently planning along such lines, but Embassy has only one unconfirmed report to indicate they have sufficient cohesion and strength to warrant undertaking or achieve success. Key government military figures and government intelligence sources insist to Embassy contacts they confident loyalty armed forces, maintaining that with discovery Barquin conspiracy and imprisonment leaders April this year no significant group dissatisfied personnel remains.

Assassination attempt on Batista of course constant threat.

Regionally, Batista shows no signs any desire improve relations with Dominican Republic, apparently feeling present situation useful in domestic politics and gives added pretext for limits and controls on opposition activities. Embassy has no evidence Cuban Government encouraging or assisting activities of opposition groups or exiles from Dominican Republic or any other country.

Representatives interested agencies concur.

Gardner

[8] Batista's coup d'état against the regime of President Carlos Prío Soccaras took place on March 10, 1952, and led to his assumption of the Presidency on April 4, 1952.

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287. Editorial Note

In telegram 288, November 13, to the United States Mission at the United Nations, repeated to Habana, Hoover expressed the Department of State's concern about the strained relationship between Cuba and the Dominican Republic. Throughout 1956, the Cuban Government had repeatedly accused the Dominican Republic of plotting to overthrow Batista by financing the Cuban President's opponents and by conspiring with Prío, who remained in exile in the United States. The Acting Secretary noted that the Department did not consider any serious threat of armed invasion of either country existed, but wished to inform the Cuban Government that the Department would consider any open conflict between Caribbean countries most unfortunate particularly in the present world situation. (Department of State, Central Files, 737.00/11–1256)

Documentation on the relations between Cuba and the Dominican Republic is *ibid.*, Central Files 737.00 and 637.39, and *ibid.*, MID Files: Lot 58 D 103, Cuba: Relations—Dominican Republic.

288. Memorandum of a Conversation, Department of State, Washington, December 6, 1956[1]

SUBJECT

Visit of Cuban Ambassador

PARTICIPANTS

Ambassador Campa
Dr. Averhoff[2]
Mr. Rubottom
Mr. Leonhardy

Ambassador Campa explained that he was departing for Cuba this week to spend Christmas there, that he had no outstanding problems to discuss but wanted to pay his respects before leaving.

Mr. Rubottom expressed his appreciation for the Ambassador's call and asked him his opinion of events taking place in Cuba.[3] The Ambassador responded by reciting a brief history of Fidel Castro, his part in the 1948 Bogotazo,[4] and described him as a dangerous individual and a fanatic. He felt that Castro's movement, which had been predicted for some time, had little support from the Cuban people, and seemed satisfied that it would be brought under control. The Ambassador said economic conditions had improved considerably in Cuba and gave prospects of further improvement with demand for sugar on the increase. In addition, he said Batista had the support of not only the army officials but the common soldiers. Also, he mentioned that while he personally did not have any political affiliation he firmly believed the Batista Government was good for the country and that it was more popular with the people today than in 1952.

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[1] Source: Department of State, Central Files, 737.00/12–656. Confidential. Drafted by Leonhardy.

[2] Octavio Averhoff y Sarra, Minister Counselor of the Cuban Embassy.

[3] Reference is to Castro's effort to lead a revolutionary uprising in early December. Returning from Mexico in a boat with a band of supporters, he landed in Oriente Province on December 2. The landing was to have coincided with a local uprising, but Castro arrived 2 days later than scheduled, and the local revolt was suppressed by the government. Castro's group was met by Cuban forces and only 12 men, including Castro and his brother Raúl, escaped to the mountains of the Sierra Maestra region.

[4] Reference is to an outbreak of violent rioting in Bogotá following the assassination of the Liberal leader, Jorge Eliécer Gaitán, on April 9, 1948. Castro was there to participate in the newly formed Congress of Latin American Students organized by Cuban and Argentine students, scheduled to coincide with the Ninth International Conference of American States (Bogotá Conference). Castro and other Cuban students were hunted by Colombian authorities for allegedly participating in the disturbances but they eventually escaped and returned to Cuba. Documentation on this conference is in *Foreign Relations*, 1948, vol. IX, pp. 1–72.

Mr. Rubottom asked about Cuba's relations with Haiti, and the Ambassador replied that he thought the matter would be resolved shortly, probably through the sending of a special emissary to Haiti for that purpose.[5] He said that the Haitians were not entirely without fault, however. Mr. Rubottom said that aside from the question of who was at fault, he felt that two countries with such a history of friendly relations should patch things up. The Ambassador agreed and added that Cuba's relations with the Dominican Republic, however, were not so easily solved and an improvement in relations with that country would take time.

Mr. Rubottom mentioned the problem of an increase in the rates for the Cuban Telephone Co. (an I.T.&T. subsidiary) and stated that Gen. Leavey[6] was in Cuba now trying to arrange an equitable settlement so the company could go ahead with its badly needed expansion program. Mr. Rubottom stated that I.T.&T. was a well-respected company and one that had the interests of Cuba, as well as its own, at heart, and added that he hoped the matter could be successfully concluded. The Ambassador agreed that the present situation in Cuba was impossible, that the problem was essentially one of rates and that many Government officials, including the Prime Minister, were in favor of the company's request for a change in the rate schedule. He said he talked to President Batista about the matter at Daytona Beach last March and the latter mentioned the strong public reaction against a rate increase. The Ambassador said Cubans were used to paying a fixed rate and did not like the idea of paying on the basis of calls made. Mr. Rubottom pointed out that Col. Leavy was prepared to work out an agreement which he thought would be satisfactory. The Ambassador said he would convey our interest in the matter to the President.

During the course of the conversation Mr. Rubottom asked Ambassador Campa if he thought that Cuban Communists were involved in the present insurrectional activities. The Ambassador, after giving a brief summary of the history of the Communist party in Cuba and Cuba's breaking off diplomatic relations with the

[5] Cuba's relations with Haiti, traditionally friendly, were seriously strained as a result of the shooting on October 26 by the Cuban National Police of 10 Cubans who had been granted asylum in the Haitian Embassy in Habana. The Chief of Police, who led the attacking forces, was also killed. Batista immediately expressed his personal regrets, but subsequent charges by the Cubans that Haitian diplomats had permitted the men to keep their arms, and agitation in the Haitian press, left relations badly strained. The Haitian Government later indicated a willingness to forget the affair if suitable apologies were forthcoming, and Cuba prepared to send a good will mission, but the disturbed political situation in Haiti during the first 3 months of 1957 prevented any settlement of the issue. Documentation on relations between Cuba and Haiti is in Department of State, Central File 637.38.

[6] Edmond H. Leavey, a retired army officer, was vice president of International Telephone and Telegraph Company.

U.S.S.R., stated that he thought elements of the Communist party in Cuba, which operates clandestinely, no doubt are aiding and abetting the 26th of July club in any way they can.

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289. Telegram From the Ambassador in Cuba (Gardner) to the Secretary of State[1]

Habana, February 15, 1957—6 p.m.

396. We here now convinced recurrent killings of persons government maintains are oppositionists and terrorists are actually work of police and army. At least three such killings have occurred Habana alone during past few days. Official explanation is that men were apparently killed by other oppositionists. However . . . Legal Attaché . . . received indirect admissions culpability within police circles . . . from other evidence police responsibility at least one case. This all part attempt (1) answer force with counterforce (2) give justification continuing suspension constitutional guarantees (3) throw fear into active insurrectionaries (4) stop terroristic activities including bombings.

Believe we should inform Cuban Government we aware such tactics and should indicate real concern regarding justification and results these methods. If existing censorship withdrawn March 1 as recently indicated by Batista we anticipate heavy attacks on administration by opposition and friends and relatives of deceased. Undoubtedly press will use gruesome pictures of victims some of which now being published. Present pictures follow pattern showing corpse riddled with bullets and unexploded bomb of dynamite sticks reposing on or near body. We consider there is strong possibility serious further reduction confidence in and respect for government by people in general as knowledge such extreme methods and brutality becomes widespread.

Intend inviting Santiago Rey[2] have another talk about matters general interest during which would indicate personal anxiety as to

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[1] Source: Department of State, Central Files, 737.00/2–1557. Secret; Priority.

[2] Minister of Interior in Batista's government.

wisdom and effects such tactics. I doubt he has ordered such techniques but undoubtedly he knows what is going on.[3]

Gardner

[3] In telegram 455 to Habana, February 16, Dulles replied as follows: "Action contemplated second paragraph reftel could be interpreted as US intervention internal Cuban affairs. No objection exerting informal personal influence on key officials of course. Trusting in Ambassador's usual discretion and judgement, discussion with Santiago Rey along lines suggested last paragraph reftel authorized." (Department of State, Central Files, 737.00/2–1557)

290. Editorial Note

On February 17, Herbert Matthews, correspondent and editor of the *New York Times,* interviewed Fidel Castro in the Sierra Maestra Mountains. Matthews described the Cuban leader as an idealistic reformer intent on restoring the democratic Cuban constitution of 1940 and as the symbol of resistance to Batista's regime. He contended that the Cuban Government was following unsound and dangerous financial policies, that the opposition to Batista was anti-United States, and that United States sales of arms to the government were interpreted as support for Batista. Matthews' interviews were described in a series of articles which appeared in the *New York Times,* February 24, 25, and 26, 1957.

In despatch 531 from Habana, February 28, Ambassador Gardner noted that many of Matthews' statements and conclusions were accurate and that he agreed with the reporter that the Batista administration was faced by the most determined opposition it had yet experienced. But he asserted that Matthews presented a one-sided picture and that the Batista government had the situation "fairly well under control." He stated Matthews had emphasized the negative features of the situation and had exaggerated the size and importance of the Castro movement.

Gardner also declared that the opposition to the Batista regime actually consisted of several groups with different objectives and conflicting ambitions. In the first category were those desiring a "new deal" in Cuba. Gardner listed Castro and his followers as the most aggressive element bent on direct and violent action in the category, along with the Federation of University Students, the dissatisfied military officers, and a loosely defined group of professional businessmen. His second category included those who desired

to replace the present administration, such as Prío and other leaders of the old-line political parties. (Department of State, Central Files, 737.00/2–2857)

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291. Memorandum of a Telephone Conversation Between Terrance G. Leonhardy of the Office of Middle American Affairs and Joaquin Meyer of the Cuban Sugar Stabilization Institute, Washington, April 11, 1957[1]

SUBJECT

Cuban Sugar Sale to U.S.S.R.

Dr. Joaquin Meyer, representative in Washington of the Cuban Sugar Stabilization Institute, called me this morning to advise me that the Institute had approved the sale of 150,000 tons of sugar to the U.S.S.R. at 6.12 cents, delivery April to July, and a 24-hour option on an additional 50,000 tons at 6.25 cents. He said he had advised Larry Myers of Agriculture and shared the latter's dim views of the operation.

Mr. Leonhardy voiced his surprise to Dr. Meyer at this latest sale coming on the heels of a sale of 200,000 tons to the U.S.S.R.[2] and asked Dr. Meyer if he could explain why the Institute consummated such a deal when Cuba's reserves had been exhausted and a ready market existed for sugar amongst the consuming member countries of the World Sugar Agreement. Dr. Meyer replied that he attributed the sale to three factors:

1) World prices now exceed U.S. prices, thus the pressure exerted in the Institute to sell at this time is great.

2) Cuba has undergone many lean years and there is much support in the Government for improving Cuban dollar exchange balance while the opportunity exists.

3) Because of the political instability in Cuba sugar producers are anxious to get rid of existing supplies and the U.S.S.R. was willing to place a large firm order while consuming countries in the Agreement were limiting purchases to smaller quantities.

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[1] Source: Department of State, ARA Files: Lot 59 D 2, Cuba: Sugar, 1957. Official Use Only.

[2] This sale is discussed by Callanan in a memorandum of March 1, *ibid.* The Cubans also sold sugar to Russia in the spring of 1955. Further documentation is *ibid.*, Central File 837.235; *ibid.*, MID Files: Lot 57 D 59, Sugar, Jan.–May 1955; and *ibid.*, ARA Files: Lot 59 D 376, Cuba, 1957.

Dr. Meyer mentioned that Larry Myers of Agriculture had expressed his concern that Cuba now might find it difficult to fill its U.S. quota and that cognizance would be taken of this when our present sugar legislation is amended. Dr. Meyer said he believed that despite the pessimistic reports on Cuba's sugar production thus far in the grinding season, he had indications that the production quota of 5,150,000 long tons would be exceeded. If the production does not exceed the established quota, Dr. Meyer pointed out that the sale to the U.S.S.R. could come out of the 350,000 long tons established as the "financed reserve" within the production quota.

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292. Editorial Note

On August 5 Admiral Radford, Chairman of the Joint Chiefs of Staff, received detailed information about a plot to overthrow Batista within the next few days. In an August 5 memorandum to Admiral Radford, Colonel E.G. Van Orman, Acting Deputy Director for Intelligence for the Joint Staff, wrote that an official in the American Embassy had been informed of the plan by an unnamed source who claimed to be the secret leader of the Fidel Castro movement in Habana. The coalition of Castro forces and the imprisoned Colonel Barquin, supported by elements of all three military sources, allegedly planned to persuade Batista to give control of the country to a military junta which would be replaced once order was restored by Barquin as provisional president. If Batista refused, the coalition would overthrow the government by force. Van Orman stated that CIA reports tended to confirm the existence and general outline of the plot. (JCS Records, Chairman's File, Admiral Radford, 1953–57, 091 Latin America)

On August 7 the Embassy informed the Department of State that the attempted nationwide general strike on August 5 as a means of overthrowing the government failed because of prompt action by Batista's officials and of general disorganization among the opposition groups. (Despatch 107, August 7; Department of State, Central Files, 737.00(W)/8–757)

293. Notes on an Intelligence Advisory Committee Meeting, Washington, August 6, 1957[1]

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3. Crisis Situations

a. Cuba

Mr. Arneson[2] noted that the Army's report,[3] although classified F–3, appears authoritative. He predicted that Batista will not take the alternative of a safe conduct departure from the country as long as he has the support of the troops at Camp Columbia. Nevertheless, Batista is faced by continuing strikes and a mounting opposition, indicating that his chances of political survival until the June 1958 election may be slight. General Schow[4] noted that despite the opposition to Batista, the President, as matters now stand, faces no great likelihood of ouster, but he agreed that the future actions of the Military will be the decisive factor. . . . General Cabell,[5] . . . stated that . . . information received is difficult to evaluate and quite general. General Collins mentioned the possible effect of the "band wagon" psychology generated by the momentum of the opposition. General Cabell pointed out that the opposition would want to be sure of success before striking to avoid the psychological set-back failure.[6]

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[1] Source: Department of State, INR Files: Lot 58 D 776. Secret. Extract. Drafted by Jay P. Moffat, Division of Biographic Information, Office of the Special Assistant—Intelligence.

[2] Deputy Special Assistant, Office of the Special Assistant—Intelligence.

[3] Not found in Department of State files.

[4] Assistant Chief of Staff, Intelligence, Army General Staff.

[5] Deputy Director of Central Intelligence.

[6] On June 20 Joaquin Meyer told Willard Beaulac, Ambassador to Argentina in Washington for consultation and former Ambassador to Cuba (1951–1953), that there had been a general repudiation of Batista throughout Cuba. In his memorandum of conversation of June 20, Beaulac recorded Meyer's belief that the Cuban leader had lost his instinct for doing the right thing and no longer felt relations with the United States were important. Meyer stated that committees of opposition to Batista had been created in all cities throughout Cuba, although they were uncoordinated and nonideological, and that Castro might rise to be president if he survived. (Department of State, Central Files, 737.00/6–2057)

294. Telegram From the Ambassador in Cuba (Smith) to the Secretary of State[1]

Habana, September 13, 1957–1 p.m.

153. Department's 152.[2] Key factor in breaking Cienfuegos revolt[3] was strafing and bombing rebel strong points including naval headquarters by F–47 and B–26 aircraft.

F–47s were purchased by Cuban Government prior to Mutual Defense Assistance Agreement of March 7, 1952. They eligible for MAP support although none supplied to date. B–26s given to Cuban Government and supported under MAP. Complicating factor is that Cuban Government turned over four B–25s which it had purchased prior to MDAP agreement in exchange for B–26s. Bombs and ammunition used by aircraft may have been MAP-supplied but impossible determine this precisely.

No other US-supplied or supported military equipment known to have been used in this incident, though possibility exists army may have employed few MAP machine guns. However army has used substantial amount MAP-supplied and supported equipment past several months in campaign against rebel force of Fidel Castro in Sierra Maestra mountains.

No MAP equipment known to have been in hands rebels Cienfuegos. Some such equipment may have been captured by rebels in Sierra Maestra operations.

Although no actual evidence of Communist participation in conspiracy, Communists do oppose regime and are well organized. Therefore logical suppose they encourage and assist all actions which foment unrest and unstable conditions. We understand local leaders of 26 of July movement were involved in Cienfuegos revolt.

We are being criticized in Cuba for supplying arms to Cuban Government. Cuba has no outside enemies. Therefore military equipment supplied by US is primarily used to maintain internal security, which means keeping any existing government in power. We understand that when Chilean Government wished to use MAP equipment against rioters in Santiago, permission was requested from Department and in view of particular circumstances of that case was

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[1] Source: Department of State, Central Files, 737.00/9–1357. Confidential; Niact.

[2] In telegram 152 to Habana, September 10, Dulles requested a report on the use of U.S. supplied or supported MAP military equipment by Cuban armed forces in the suppression of Cienfuegos revolt. (*Ibid.*, 737.00/9–1057)

[3] Reference is to an anti-government attack on Cuban armed forces at Cienfuegos on September 5 and 6, which was quelled by Batista's military.

refused. Cuban Government does not consult with Department before using MAP equipment.

Recommend careful consideration all aspects this matter in deciding on warning. Careful review of status of aircraft under MAP also indicated. GOC will undoubtedly maintain that use MAP equipment against rebellious groups to maintain internal security clearly within Cuban mission in defense hemisphere. Any action by US criticizing GOC for improper use MAP equipment would seriously weaken Batista regime, particularly if action public and contains implications further MAP assistance not forthcoming.

Despatch follows.[4]

Smith

[4] Despatch 10 from Habana, September 13. (Department of State, Central Files, 737.00/9–1357)

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295. Despatch From the Ambassador in Cuba (Smith) to the Department of State[1]

No. 233 *Habana, September 16, 1957.*

SUBJECT

Activities Involving Forces of Fidel Castro in Sierra Maestra Mts.

The censorship of all news media in Cuba, combined with the difficulty and clandestine nature of communications with the forces operating in the Sierra Maestra, make it difficult to obtain current and accurate information on activities there. The Government permits only official statements to be published, and endeavors to give the impression that conditions there are quiet, and that such engagements as do occur are small affairs resulting in the capture or killing of several rebels.

The actuality is different. The Embassy has learned from a variety of sources which are considered reliable that Fidel Castro and his armed followers in the Sierra Maestra are now adequately armed with small arms and light machine guns. They lack heavy armament, and have little chance of obtaining it. They have obtained arms by capture in small engagements, by successful raids, and by supply

[1] Source: Department of State, Central Files, 737.00/9–1657. Confidential. Drafted by John L. Topping, Second Secretary, Counselor, and Political Officer of the Embassy in Habana.

from sympathizers from outside the zone of activities. Some opposition sources maintain that the rebel force is now sufficiently powerful to seize and hold for a time some small city in Oriente Province, not too far from the hills, such as Manzanillo, Bueycito, or Estrada Palma. They insist that an engagement larger than a simple raid or skirmish will take place soon.

Details are not available, but it appears that the rebel forces have not been idle recently. There are persistent reports of a raid on a town to the north of the Sierra Maestra, apparently Bueycito, in the early days of September. The raid is said to have been led by the Argentine physician Guevara, one of the original group which landed with Castro December 2, 1956. There are also reports, considered reliable, of an action on either the 11th or 12th of this month at Ubero, a small port on the south coast west of Santiago. Those reports agree that the Army suffered at least 20 casualties and that rebel losses were small. Cause for the engagement is said to have been the belief of the Castro forces that Senator Rolando Masferrer[2] was in the town. They consider Masferrer a mortal enemy, with reason. However, Embassy sources add that Masferrer had been there, but left the preceding day.

As a further indication that the Army is continuing to have a difficult time in its attempts to capture or destroy the Castro forces, there are reports from various sources, some relayed from our Consulate at Santiago, that at least 10 officers have been killed in recent weeks in engagements in the hills. Logically, this indicates that there were a considerably larger number of casualties among enlisted personnel.

It appears that the Cuban Government has been unable to liquidate the Sierra Maestra rebellion; that there is little possibility that it can do so in the near future, and that the operation will continue to plague Cuban armed forces, with possibly serious effects on their morale.

For the Ambassador:
Daniel M. Braddock
Counselor of Embassy

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[2] Reference is to one of the leaders of the Radical Union Party which supported Batista. He became prominent as the head of the Movimiento Socialista Revolucionario (Socialist Revolutionary Movement) which supported the government against Castroist opposition in Oriente Province.

296. Letter From the Secretary of Defense (Wilson) to the Administrator of the General Services Administration (Floete)[1]

Washington, September 18, 1957.

DEAR MR. FLOETE: This letter, supplementing intervening discussions, is written in reply to your letter of August 15, 1957, in which you requested authorization for the disposal of the government-owned nickel plant at Nicaro, Cuba, and with which you enclosed a letter dated July 8, 1957, to you on the same subject from the Director, Office of Defense Mobilization.[2]

In 1947 it was determined that under conditions then existing continued ownership of this plant by the government was no longer necessary for security purposes, and efforts were made to sell it, subject to a national security clause. It is my understanding that these efforts were unsuccessful and that after the enactment of the National Industrial Reserve Act of 1948 (Public Law 883 of the 80th Congress),[3] this plant was one of those placed in the National Industrial Reserve under that Act.

As a result of the increased need for nickel arising from the Korean crisis, it was realized that reactivation of the nickel plant at Nicaro would be desirable. By letter dated November 13, 1950, to the then Administrator of General Services Administration, the Acting Chairman of the Munitions Board requested GSA to "enter into a lease agreement" with whichever of two named firms then found to be qualified should "offer a proposal most advantageous to the United States Government".[4] Later a third firm was held to be qualified.

Following receipt of the above letter, GSA provided for the operation of the plant by entering into a management agreement which contemplated that after about one year of operation thereunder it would either be converted into a lease or terminated, and that if terminated, the plant might then be sold or leased to others. The operator of the plant under that agreement was the successor in interest to one of the three firms approved by the Munitions Board. By a later amendment, dated January 23, 1953,[4] the operation under the management type of arrangement was extended to a full five-

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[1] Source: Department of State, Central Files, 837.2547/2–2758. Official Use Only. Attached to a memorandum of February 27, 1958, from Snow to Mann.

[2] Neither found in Department of State files.

[3] Enacted July 2, 1948; for text, see 62 Stat. 1225.

[4] Not found in Department of State files.

year period from the date of commencement of full operations after reactivation.

In December 1953 the Office of Defense Mobilization authorized GSA to expand the Nicaro plant for the purpose of increasing its productive capacity. Construction was started in October 1954, and completed on March 10, 1957.

The amended management agreement was due to expire on or about July 15, 1957. When we considered this situation last April, only limited information was available as to the production capability of the enlarged plant. Under all the circumstances I declined in my letter of April 12, 1957,[5] to approve at that time either a lease or sale of the plant, feeling that some extension of the existing management-type arrangement was the better course. You thereupon extended that agreement to December 31, 1957.

Upon review of present conditions and the circumstances set forth in your letter, I now withdraw the objections in my letter of April 12, 1957, to disposal of this plant and agree that GSA may proceed with lease arrangements under the authority given it by the Department of Defense through the Munitions Board in its above-mentioned letter dated November 13, 1950, in accordance with the authority granted in Section 7 of the National Industrial Reserve Act of 1948 (Public Law 883 of the 80th Congress).[6] As indicated in that letter, the Department of Defense will be glad to consider recommendations by you, either now or hereafter, of other firms which under present circumstances should be included in the list of possible qualified operators.

I understand that in seeking lease proposals you may also secure alternate proposals for purchase of the plant. If after having fully explored the matter, you decide to recommend a sale rather than a lease as being in the best interests of the United States, the Department of Defense will, of course, consider such a recommendation, in the light of the provisions of Section 7 of the above-mentioned Act.

The Department of Defense is interested in preserving the nickel production of this Nicaro property as part of the mobilization base and it feels that in any lease (or possible sale) of the property, it is important that appropriate provisions be included to secure to the United States for defense purposes any needed part of the productive capacity of this plant.

I recognize that the responsibility for working out this transaction from the point of view of economics rests with your agency. However, I am sure that as to national security aspects of any

[5] Not found in Department of State files.

[6] Section 7 authorizes the Secretary of Defense to dispose of property in the national federal reserve when deemed in the interest of national security.

agreement, you will seek the advice of the Office of Defense Mobilization and of this Department.[7]

Sincerely yours,

C.E. Wilson

[7] On October 24, representatives of the General Services Administration (GSA) and the Department decided that Ira Beynon, Special Assistant to the GSA Administrator, would go to Habana to attempt to obtain agreement with the Cuban Government on three points considered essential before Nicaro could be sold. These were: 1. tax benefits to derive to the purchaser, 2. U.S. control over production to insure continued supplies of nickel to the U.S., and 3. Cuban private capital participation. (Memorandum of conversation, October 24, by Leonhardy; Department of State, Central Files, 837.25471/2–2758) No agreement was reached with the Cuban Government on these points in 1957.

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297. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Acting Secretary of State[1]

Washington, September 21, 1957.

SUBJECT

Mr. Wieland's Conversation with ex-President Prio

Mr. Wieland gave me a rather detailed account of his conversation with ex-President Prio of Cuba who called on him Friday afternoon at 3:30. The meeting was at Dr. Prio's request and was concurred in by me after careful consideration of the various factors involved. I reported at the Secretary's Staff Meeting on Friday morning that Mr. Wieland would receive ex-President Prio that day.[2]

My decision that Mr. Wieland receive Dr. Prio was in accord with the policy which we have traditionally carried out in ARA to receive and listen without comment to the views of callers representing the political opposition in the countries of Latin America. They normally have been received by the desk officer or the Office Director and by no higher ranking official. In the past few months

[1] Source: Department of State, Central Files, 737.00/9–2157. Confidential. Dulles was in New York to address the opening session of the U.N. General Assembly on September 19; Murphy was acting.

[2] At the Secretary's Staff meeting on September 20, 1957, Rubottom reported that an ARA officer would receive Prío at the request of a U.S. businessman. He said this officer "would listen to Prío and then crack down on him (Prío) for his abuse of American hospitality by inciting trouble while in Florida." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75)

we have had callers from the opposition in Haiti, Honduras, Venezuela, and other Cubans, to mention a few.

According to Mr. Wieland, he, in accordance with a previously arranged plan seized the first opening to make clear to Dr. Prio that the United States had been greatly concerned with reports and allegations of certain of his activities in this country which seemed to violate the immigration regulations and to have abused the hospitality which this country had extended since 1952. Dr. Prio denied having acted in any way contrary to the norms required of the person living in the United States as a political exile, stating that he was "afraid" to take any chances whatsoever due to the fact that his Cuban passport would soon expire and his need to remain in our good graces so as to be able to stay in the United States. Here he referred to his being able to obtain a passport, presumably Costa Rican, from his friend, President Figueres of Costa Rica.

Mr. Wieland clearly set forth the Department's preference that there should be no publicity attendant to the meeting and Dr. Prio expressed his full concurrence on this point. He stated that he had gone to New York in the expectation of seeing Secretary Dulles which appointment was supposed to have been arranged through an American intermediary, one Mr. Wallace Rouse[3] (who had spoken to Mr. Wieland on Thursday and to whom Mr. Wieland had expressed a willingness to see Dr. Prio if he came to the Department while specifically avoiding making an appointment). Dr. Prio said that he intended to go back to Miami Friday evening.

The ex-President provided Mr. Wieland with his own views of the Cuban political situation which Mr. Wieland will be reporting on in detail later. Mr. Wieland said that he carefully avoided any expression of opinion or any comment while listening to Dr. Prio.

Having in mind the problem which has arisen with the Cuban Government due to our decision to postpone further delivery of the eight tanks which they had sought to purchase under the reimbursable military aid program, and to lessen the impact on the Cuban authorities in the event Prio should make public his call at the Department, the Cuban Embassy was informed prior to the time of Prio's call that the latter was going to be received at the Department at his request. We informed the Embassy that we would warn Dr. Prio not to abuse the hospitality of the United States and expressed concern over certain reports of his activities. On Dr. Prio's departure the Cuban Embassy was further informed that Dr. Prio had stated he did not intend to publicize his call at the Department.

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[3] A writer and private U.S. citizen, Rouse had been requested by a group of Cubans to ask for a confidential meeting between Dulles and Prío.

298. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary for Political Affairs (Murphy)[1]

Washington, September 23, 1957.

SUBJECT

Deferral of Action on Cuban Government Request for Purchase of Tanks

Background

In a note of May 8, 1957, the Cuban Embassy asked for our approval for the purchase by the Cuban Army of eight (8) M–4 A–3 medium tanks.[2] The note did not indicate what these tanks were to be used for but our Army Mission in Habana stated that they were to be added to seven (7) like tanks already on inventory to form a tank company. A decision on this request was delayed pending a clarification from the Cuban Government on its then pending order for six (6) light tanks which our Army Mission in Habana considered unwarranted. The latter order was finally cancelled in July and in response to the Department's request, Embassy Habana recommended that the medium tank order be approved subject to the Department's review prior to delivery. As payment on acceptance of such an order is required, the Department with the concurrence of the Department of Defense considered that it was not feasible to comply with the Embassy's recommendation.

Since the receipt of this request last May, the Department has been under constant pressure from the Cuban Embassy for a favorable decision on the grounds that it had President Batista's personal support. In the aftermath of the recent revolt at Cienfuegos (September 5 and 6), which was quelled by the use of tanks and MAP furnished and/or supported aircraft, Cuban pressure to approve this request increased and it became apparent that an immediate decision would have to be made.

Our Government was subjected to bitter criticism both in the United States and in Cuba in January of this year when seven (7) M–4 tanks purchased in this country were delivered to the Cuban Army amid considerable publicity and fanfare. During the repeated internal political crises which have occurred in Cuba subsequent to the delivery of these tanks, we have been under almost constant criticism for supplying arms to bolster the Batista regime. This

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Cuba. Confidential. Drafted by Leonhardy. An uninitialed handwritten note across the first page of this memorandum reads: "Covered in talk with Murphy."

[2] Not printed. (*Ibid.*, Central Files, 737.561/5–857)

criticism became more acute when MAP equipment was used by the Cuban armed forces in quelling the Cienfuegos revolt in direct violation of Article I, section 2 of our MDAP Agreement of March 7, 1952, with Cuba.

A position paper calling for deferred action on this tank request was prepared by ARA on September 12, 1957, (Exhibit A)[3] after the matter was deliberated thoroughly within ARA and discussed with the competent officials of the Department of Defense. This position had the concurrence of the latter Department as well as of our Embassy in Habana. In addition to concurring with our position on political grounds, the Department of Defense officials voiced some doubt that Cuban Army technicians actually could operate and service these tanks.

Accordingly, I informed the Cuban Ambassador on September 19 of our decision stating that I thought approval at this time would be contrary to the best interests of both our countries because of the adverse publicity that was sure to follow. The Ambassador objected that our action would certainly be interpreted as a change in our attitude toward his Government.[4] A résumé of this conversation in the Deptel 175 to Embassy Habana is enclosed (Exhibit B).[5] In a subsequent telegram to the Embassy, 179 of September 20 (Exhibit C),[6] Ambassador Smith was instructed to explain to President Batista

[3] Drafted by Weldon Litsey of the Office of Inter-American Regional Economic Affairs, this paper was sent to Snow through Wieland, Turkel, and E. Glion Curtis, Officer in Charge of Inter-American Security and Military Assistance. It recommended that the Cuban Ambassador be told "that in conducting our foreign policy with Cuba and other friendly nations we cannot ignore certain internal political problems and situations which arise and which affect the conduct of our relations with other nations; that he is undoubtedly aware of the criticism to which our military assistance policy toward Cuba is being subjected at this time; that Mr. Rubottom (or Mr. Snow) does not feel that it is in the interest of either of our countries to take action on this request at this time and that we therefore plan to defer any action on the Cuban request for tanks until some future date." It also recommended that the Ambassador be told that the Department had received reports from various sources "that Cuba has used equipment supplied or supported with United States Military Assistance Program funds to put down recent internal disturbances. If such reports should prove to be true, it would appear that Cuba has violated Article I, Section 2 of the Mutual Defense Assistance Agreement of March 7, 1952, which provides that Cuba would not, without prior consent of this Government, use the assistance furnished her, for purposes other than to implement 'defense plans, accepted by the two Governments, under which the two Governments will participate in missions important to the defense of the Western Hemisphere.' If it should be found that in fact Cuba has violated the agreement in this way, public reaction in the United States against continued military assistance to the Cuban Government could be expected to increase, possibly to the extent of jeopardizing United States military assistance programs to Cuba."

[4] A September 19 memorandum of conversation by Wieland summarizes this discussion. (Department of State, Central Files, 737.561/9–1957)

[5] Sent on September 19. (*Ibid.*, 737.00/9–1857)

[6] Not printed. (*Ibid.*, 737.00/9–2057)

why it was to the mutual interests of both countries to defer action on this request for tanks at this time.

It has been clear from the inception of this request that it was the intention of the Cuban Army to use these medium tanks for "internal security" purposes. In view of the recent use by the Cuban armed forces of MAP equipment to suppress the Cienfuegos revolt and the continuing internal unrest, I am convinced that to approve the sale of these tanks at this time would result in serious criticism from Congress and the United States public. I believe, therefore, that our only logical course was to defer action on this request. I am hopeful that a thorough explanation of our reasons for doing so will be understood and accepted by President Batista.

In this connection, I should point out that in May, 1955 the Department under similar circumstances revoked an export license for napalm bombs which were purchased by the Colombian Army as it was apparent that they were to be used against Colombian guerrillas.

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299. Telegram From the Ambassador in Cuba (Smith) to the Secretary of State[1]

Habana, September 23, 1957—5 p.m.

172. Had two-hour cordial informal conversation with Batista last night my request. Foreign Minister Guell present. Campa failed to point out delivery of tanks was deferred not cancelled.

I explained fully reasons for deferring delivery tanks and pointed out that State and Defense Departments had made decision only after carefully weighing advantages against possible disadvantages to both US and GOC. I explained existing and possible future criticism of US Government from public, press and Congress and reiterated decision was the only proper action to take to preserve the good relationship between our two governments. Another incident such as Cienfuegos might cause grave embarrassment to both governments if tanks were prepared for delivery at this time. Batista intimated he understood our position. However he said GOC would cancel order for tanks to avoid any adverse psychological effect and would explain locally to Cuban military that decision was taken because tanks were not needed and disproportionately costly for slight

[1] Source: Department of State, Central Files, 737.00/9–2357. Confidential.

benefit derived. He added future deliveries of arms under MAAG are needed and GOC concerned with general over-all future policy of US regarding shipments under MAAG program. I told him so far as I knew decision on tanks covered only that particular case. Batista mentioned in passing that Cuba could purchase from other sources but did not pursue subject possibly since I pointed out Cuba had no outside enemies and reminded him of consultation provision of MAAG agreement.

Batista's main concern in relations with US at present is unquestionably activities of Carlos Prio. Batista convinced Cienfuegos revolt instigated and financed by Prio. He expressed deep concern over what he described as our continued toleration Prio's activities which permits Prio to supply arms, bombs and money from US soil for attempted overthrow present GOC. He maintained GOC has concrete evidence including serial numbers weapons with which to prove his charges concerning Prio's activities. I said US would be interested such evidence and he agreed submit same. Batista said we should not refuse to sell him military equipment and yet permit Prio to ship arms to revolutionaries. I mentioned in general terms heavy criticism US Government from various sources for its military dealings with allegedly dictatorial governments in Latin America and GOC's recent use such equipment in Cienfuegos incident.

I assured him visit to Department by Prio and deferment sale tanks had no relation or significance. He was appreciative of this point but most unhappy over what he considers our laxity in connection activities Prio and associates.

I assured Batista primary interest of US was to have a stable government in Cuba which would maintain law and order and live up to its domestic and international obligations. I added US Government fully aware of imponderables which might ensue were there to be a change in present GOC and also aware of Communist activities.

My reactions to conversation are that: (a) Batista is convinced of correctness his position regarding Prio activities, (b) intends hold free and open elections but plans assure continuity of government by transfer to safe hands, (c) his present thinking is to woo me away from present impartial attitude, toward pro-Batista attitude.

Smith

300. Instruction From the Secretary of State to the Embassy in Cuba[1]

A–73. *Washington, October 3, 1957.*

Following the decision of the United States to defer action on selling 8 medium tanks to Cuba, the Government of Cuba has expressed concern over the Department's attitude and future actions with regard to the supplying of military equipment to Cuba. (Embtels 172 of September 23[2] and 182 of September 25, 1957.[3])

Military assistance to Cuba, as to other Latin American countries, is based on the Mutual Security Act of 1954, as amended,[4] and is furnished principally in two ways: (1) grant aid (2) sales.

Under the Act, *grant* military assistance may be furnished to Latin American countries which have signed bilateral Mutual Defense Assistance Agreements with the United States. These agreements outline in secret annexes missions important to the defense of the Western Hemisphere to be performed by those countries and specify certain military units necessary to carry out the missions. These units constitute the force bases on which our grant military aid is based and are approved by the country concerned, the Joint Chiefs of Staff and the Department of Defense. Subject to the amount of funds available, military needs, availability of equipment, and policy consideration, the United States assists in the maintenance of these units with training, equipment, spares, and/or support. Twelve Latin American countries have signed Mutual Defense Assistance Agreements with the United States and all have committed themselves in the agreements not to use the assistance furnished for purposes other than those for which it was furnished (i.e., those hemisphere defense missions specified in the annex), without the prior concurrence of the United States.

The Mutual Security Act of 1954, as amended, also provides that the United States may *sell* military supplies and equipment to friendly countries, including Latin America, under certain conditions specified in section 106 of the Act. With regard to Latin America, it is considered that all twenty Latin American countries are eligible to purchase under section 106 by virtue of being signatories to the

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[1] Source: Department of State, Central Files, 737.00/9–2557. Secret. Drafted by Litsey and approved by Turkel.

[2] *Supra.*

[3] Not printed. (*Ibid.*, 737.00/9–2557)

[4] P.L. 85–141, enacted August 14, 1957; for text, see 71 Stat. 355.

Inter-American Treaty of Reciprocal Assistance of 1947.[5] Military supplies and equipment purchased under section 106 may be used to maintain internal security, carry out tasks of legitimate self-defense, or participate in the defense of the Western Hemisphere. The only limitation on the use of this equipment is that it should not be used in any act of aggression against another state.

FYI. In addition to legislative limitations, NSC policy paper 5613/1 applies to the furnishing of military supplies and equipment to Latin American countries on a grant or sales basis. See paragraphs 32, 33, and 34 of NSC 5613/1.[6] End FYI.

There seems to be no doubt that Cuba has violated Article 1, paragraph 2, of the Mutual Defense Assistance Agreement with the United States by using, to put down internal disturbances, equipment furnished under grant aid to support units of the force bases designated to carry out her missions of hemisphere defense, without the prior agreement of this Government. The attention of the Cuban Government has been called to this violation. However, no change is being made in the present grant aid program for Cuba.

There has been no change in the attitude of this Government toward selling military supplies and equipment to the Cuban Government in accordance with present legislation and policy. In considering future requests of the Cuban Government to purchase military equipment, this Government will, however, have to consider the same factors which led to its decision to defer action on the Cuban request for 8 medium tanks, before making a final determination on such requests.

Only five Cuban requests to purchase equipment are pending in the Department at this time. Four were referred to the Embassy for its recommendations in the Department's A–63 of September 24[7] and A–70 of September 27, 1957.[8] The fifth was received on September 27 and is the subject of an instruction drafted on September 30[9] which should have reached the Embassy before this instruction. The Department hopes to be able to take action on these five requests upon receipt of the Embassy's replies.

Six requests have been approved by the Department since the first of the year (Cases No. 65–69 inclusive and 72). These requests include machine guns, armored cars, pistols, and communication

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[5] The Inter-American Treaty of Reciprocal Assistance was signed at Rio de Janeiro, Brazil, on September 2, 1947, by the representatives of the United States and 18 Latin American countries. It was ratified by the President of the United States on December 12, 1947, and entered into force on December 3, 1948. For text, see 62 Stat. 1681.

[6] Document 16.

[7] Not printed. (Department of State, Central Files, 737.561/9–2457)

[8] Not printed. (*Ibid.*, 737.561/9–2757)

[9] Not printed. (*Ibid.*, 900.741/9–3057)

equipment. (A request for 100 colt .45 pistols has been approved subsequent to the decision to defer consideration on the request for eight tanks.)

Dulles

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301. Memorandum for the Files, by the Deputy Assistant Secretary of State for Inter-American Affairs (Snow)[1]

Washington, October 22, 1957.

SUBJECT

Conference with Attorney General Brownell and others Regarding the Activities of ex-President Carlos Prio Socarras

Attorney General Brownell held a meeting in his office on October 14, 1957 to discuss the Prio case. The following persons attended the meeting, which lasted from 11:00 a.m. until 12:15 p.m.:

Attorney General Brownell, Department of Justice.
General J.M. Swing, Commissioner of Immigration and Naturalization, Department of Justice.
Mr. Ralph Kelly, Commissioner of Customs, Treasury Department.
Mr. Harold Healy, Executive Assistant, Department of Justice.
Mr. James L. Hennessy, Executive Assistant to the Commissioner of Immigration and Naturalization, Department of Justice.
Mr. J. Walter Yeagley, First Assistant, Internal Security, Department of Justice.
Mr. Mario Noto, Chief, Special Investigations Branch, Immigration and Naturalization Service, Department of Justice.
Mr. Alan Belmont, Assistant Director, Federal Bureau of Investigation.
Mr. Chester Emerich, Deputy Commissioner of Customs, Treasury Department.
Mr. R.R. Rubottom, Jr., Assistant Secretary for Inter-American Affairs, Department of State.
Mr. William P. Snow, Deputy Assistant Secretary for Inter-American Affairs, Department of State.

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[1] Source: Department of State, Central Files, 737.00/10–2257. Confidential. Copies of this memorandum were sent to MID and to the Embassy in Habana.

The Attorney General opened the discussion by referring to the letter he had received from Secretary Dulles under date of October 9[2] in which the Secretary had expressed concern over the activities of ex-President Prio based on reports received from time to time from the Cuban Government as well as from other sources. The Attorney General believed that Prio's activities must indeed represent a serious issue between our Government and the Cuban Government for Secretary Dulles to devote his personal attention to it in this manner.[3] He had therefore brought the present meeting together in order to review the progress made so far by the investigative authorities of this Government and to consider what further action should be taken.

The Attorney General called first upon General Swing to report on behalf of the Immigration and Naturalization Service. After describing briefly the terms of parole under which Prio had been admitted to the United States at Miami in May, 1956,[4] General Swing asked Mr. Noto to brief the meeting on the investigation his office had conducted. Mr. Noto, who was well prepared, outlined the status of the case indicating that, although his office had testimony clearly demonstrating that Prio had violated the terms of his parole, the available evidence was such that it could not be introduced in court. There were four key witnesses, two of whom had participated in the voyage of the yacht *Corinthia* from Miami to Cuba in May of this year. They had informed the INS under interrogation that after they had been recruited, paid and instructed, they had been brought to see Prio himself who had thereupon told them that they were being dispatched to Cuba to assist in overthrowing the Batista Government. Two other witnesses, both apparently American citizens, had given incriminating information against Prio but, as in the case of the first two, had refused to testify in court out of fear of violent reprisal on the part of the Prio organiza-

[2] Not printed. (*Ibid.*, 737.00/10–957) In a memorandum of October 8, for Dulles, Rubottom wrote that ARA believed there was enough circumstantial evidence against Prío "to warrant a more active investigation of his case by Justice" and that a communication from the Secretary of State to the Attorney General was necessary "to obtain the full cooperation of Justice in this endeavor." (*Ibid.*, Rubottom Files: Lot 59 D 573, Cuba)

[3] In his reply to Dulles, October 10, Brownell said he had scheduled a conference in his office on October 14 with the Commissioner of Immigration and Naturalization to discuss Prío's activities, and that he would give the Department of State representatives at the meeting a full report of the status of this Department's continuing investigation. (*Ibid.*, Central Files, 737.00/10–1057)

[4] Prío was admitted on a parole status after signing a statement that (1) he would not engage in any act prejudicial to the public interest of the United States or in violation of U.S. laws; (2) he would not associate with any individual looking toward the overthrow of a friendly power; and (3) a violation of these conditions would result in his removal from the United States.

tion. Mr. Noto explained that Prio, having been convicted in 1954 in a U.S. court of illegal traffic in arms and being a man of obvious intelligence and resource, was taking special pains to avoid direct implication in the moves being made by the anti-Batista elements working in the United States. It was proving very difficult to get actual court evidence against him personally.[5]

The Attorney General thought that the investigation should be broadened, if it had not already been, to include any and all of Prio's accomplices in order to break up the movement which was not only illegal but detrimental to U.S.-Cuban relations. He raised the possibility of a conspiracy charge with Mr. Healy who agreed that it should be carefully considered. Mr. Rubottom had previously confirmed to the Attorney General that the Prio case had become a serious irritant in U.S.-Cuban relations and that the State Department did attach considerable significance to it and was most anxious to have it brought to a conclusion.

Mr. Snow asked those present whether, in addition to the terms of Prio's parole and his status in this country as an alien, the Department of Justice had also taken into account Articles 960 and 962 of the U.S. Criminal Code (Title 18)[6] as well as provisions of the Havana Convention of 1928[7] and a protocol thereto signed earlier this year by the U.S. Government but not yet ratified. The Havana Convention, he said, had long since been ratified but not the protocol. Those present did not seem to be familiar with the terms of the Convention referred to, but Mr. Belmont of the FBI stated that the cited Articles of the Criminal Code came under his office for enforcement and that they were in no sense being overlooked.

Mr. Kelly then reported that on the night before Customs officials in Florida had seized a shipment of arms destined for Cuba and had arrested three Cubans in connection with it. He also spoke of other efforts to control the movement of arms and the difficulties encountered.

Attention was next directed back to Mr. Noto's presentation with the Attorney General and General Swing discussing what action might be taken now with regard to Prio's parole even if the

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[5] In an interview with Wieland on September 20 Prío denied all the charges made against him and indicated they were fabricated by Batista. (Memorandum of conversation by Leonhardy, September 20; Department of State ARA Files: Lot 59 D 376, Cuba)

[6] Reference is to Title 18 of the U.S. Code, entitled "Crimes and Criminal Procedure" (P.L. 772), enacted June 25, 1948; for text, see 62 Stat. 683; for text of Article 960, "Expedition Against Friendly Nation" and of Article 962, "Arming Vessel Against Friendly Nation," see 62 Stat. 745–746.

[7] Reference is to the Convention between the United States and other American Republics regarding the status of aliens signed at Habana, February 20, 1928, and entered into force May 21, 1930. For text, see 46 Stat. 2753.

four key witnesses would not present themselves in court. Thought was given to a procedure whereby Prio could be brought before the U.S. court for violation of parole and with the prosecuting officials asserting to the court that the charge was based on confidential information. A technical, legal discussion ensued bringing out the various steps which would follow from such a move. General Swing wondered whether it might not be good policy to get at Prio in this way even if an ultimate conviction might not be attainable in the absence of further evidence. Such a course might at least have the virtue of causing Prio and his associates to desist from some or all of their activities, as well as demonstrating to the Cuban Government that we were taking active steps in response to their representations. Mr. Rubottom expressed the view that this idea was well worth further exploration.

It was mentioned by Mr. Belmont and others that Prio had ample funds at his disposal on the order of one million dollars. Much of this money was on deposit in New York banks. The FBI had checked the bank accounts but had not received the cooperation of the banks in the matter of tracing withdrawals from the accounts. The FBI could not move further in that direction unless it should subpoena the banks' records. The Attorney General took up that point at once and stated that, in his opinion, the records should be subpoenaed.

The Attorney General also referred to correspondence between General Swing and the State Department regarding the proposal of the INS to send investigators to the Dominican Republic to interview prospective informants and to have its representative in Mexico City interrogate certain people in Mexico. The State Department's latest communication had advised General Swing that, in the opinion of our Ambassador in Ciudad Trujillo, it would neither be advisable nor productive to send investigators there and that, according to our Embassy in Mexico City, the INS representative should not seek to interview witnesses in that country unless they came voluntarily to the Embassy, such as when applying for visas. The Attorney General asked Mr. Rubottom whether, in view of the importance the State Department attached to the case, General Swing's proposal might not be reconsidered. Mr. Rubottom agreed that he would be willing to reconsider the Department's position although both he and Mr. Snow pointed out that according to all the facts so far presented the main activity of the Cuban exiles associated with Prio was taking place inside the United States; hence the interrogation of persons in third countries might not be expected to yield nearly as much valuable evidence as maximum efforts in the United States would do.

At the end of the meeting the Attorney General stated that he intended to call another meeting of the same group in a fortnight (which would be on October 28).

The State Department representatives present assumed that one of those attending the meeting from the Attorney General's own Department would prepare full minutes for distribution. It turned out, however, that no general minutes were made and consequently this memorandum has been prepared for the Department's files.

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302. Telegram From the Ambassador in Cuba (Smith) to the Secretary of State[1]

Habana, November 2, 1957—4 p.m.

251. I hope that at next high-level meeting with all interested parties regarding Prio activities decision can be made to take stern measures curtailing Prio's activities in US, short of deportation. GOC maintains that US toleration of Prio activities is contrary to US obligations under 1928 convention on rights and duties of states in event of civil strife.

GOC maintains that constitutional liberties cannot be restored until the activities of Prio and Castro have been curtailed. If US takes measures to stop Prio's activities I will be in position to suggest to Batista that it is US hope that GOC can then restore constitutional guarantees, thus enabling Cuba to hold genuinely free and open elections.

If we are unsuccessful in that step, Department may then wish to review its policy with respect to Cuba in so far as military assistance program is concerned.

Constitutional guarantees have now been suspended until December 14. Decision re further 45 day extension will be taken prior to that date. Political party conventions, designations of candidates and electioneering in general normally reach high peak during that period. If guarantees are again suspended it is doubtful that opposition parties will participate in elections.

Smith

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[1] Source: Department of State, Central Files, 737.00/11–257. Confidential.

303. Telegram From the Secretary of State to the Embassy in Cuba[1]

Washington, November 14, 1957—3:37 p.m.

262. During meeting at Justice November 13 to discuss next steps in matter of Prio (Embtel 251)[2] and other revolutionary exiles, Justice asked Department's assistance in obtaining GOC's assurance that three Cubans could give sworn testimony in US at early date. . . . Unless it perceives objection, Embassy instructed obtain Guell's assurances cooperation these requests.

FYI only, these requests pertinent Miami grand jury investigation beginning November 19 re possible violation our laws by Cuban revolutionaries including Prio. In this connection Assistant Attorney General Tompkins plans fly to Habana November 17 for short visit without publicity to confer with Ambassador and any Cuban officials Ambassador considers appropriate including Batista. Tompkins plans give GOC advance information investigation and request cooperation. Department considers this visit would be most helpful and hopes Ambassador concurs. Prompt reply needed. Travel details will follow. Investigation should have effect of 1) showing GOC our serious intent 2) discouraging illegal activities Prio and followers and 3) providing groundwork for approach to Batista on possible political solution you discussed Embtel 251 or alternative possibilities. Now contemplated latter approach will coincide with planned Wieland visit Habana end November which subject another communication.

Dulles

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[1] Source: Department of State, Central Files, 737.00/11–1457. Secret; Niact. Drafted by Leonhardy and Wieland; approved by Snow.

[2] *Supra.*

304. Telegram From the Secretary of State to the Embassy in Cuba[1]

Washington, November 18, 1957—3 p.m.

273. Ambassador from Rubottom. Deptel 262, Nov. 14.[2] It appears that Batista attempting impose conditions on U.S. (i.e. he will decide on guarantees only after we halt Prio's activities in U.S.). Also appears 1) he intends adopt "get tougher" policy after Grand Jury convenes and 2) he assuming Grand Jury is necessarily prelude to punishment by U.S. courts.

You should make clear to Batista U.S. has no intent to enter bargaining negotiations with GOC on this matter. As possible deterrent to Batista's stated intention to use U.S. Grand Jury investigation as signal for "get tougher" policy which would have harmful effect in U.S. and give opposition new ammunition for its campaign here and elsewhere, you are instructed soonest after consultation with Tompkins to emphasize to him this investigation 1) is for purpose weighing allegations of GOC and other circumstantial evidence to determine whether sufficient evidence to proceed to trial; 2) is in accord due process of law and U.S. cannot assume evidence developed under oath will be sufficient warrant prosecution; and 3) is strictly a judicial process.[3]

Dulles

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[1] Source: Department of State, Central Files, 737.00/11–1857. Secret; Niact. Drafted by Leonhardy and Wieland; approved by Edward S. Little, Officer in Charge of Caribbean Affairs.

[2] *Supra.*

[3] In a memorandum of November 19, 1956 to Murphy, Rubottom requested that the Office of the Deputy Under Secretary of State for Political Affairs arrange with the FBI for physical surveillance of Prio Socarras over a period of time to develop and provide the Department with conclusive evidence as to whether or not he is engaged in subversive activities directed at the Government of Cuba. (Department of State, Central Files, 737.00/11–1956)

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305. Editorial Note

On November 18 the Governments of Cuba and the United States began negotiations in Habana for a Shrimp Conservation Convention applicable to the stocks of shrimp in waters of the Gulf of Mexico off the coasts of Cuba and Florida. No agreement was

reached in 1957. Documentation on the negotiations is in Department of State, Central File 611.376 for the year 1957.

306. Despatch From the Ambassador in Cuba (Smith) to the Department of State[1]

No. 463 *Habana, December 7, 1957.*

SUBJECT

Policy Recommendations for the Restoration of Normalcy in Cuba

Problem:

A state of acute tension, accompanied by recurrent acts of violence, exists in Cuba, resulting from the harsh discipline imposed by a dictatorial government and from the conspiratorial and terroristic efforts of a disorganized opposition to unseat it. The situation threatens the continuation of democratic institutions in Cuba, and possibly the safety of American lives and property. If the government falls, a period of chaos and anarchy is likely to ensue which Communist elements within and outside Cuba may be expected to exploit to the maximum extent of their ability. Should the United States try to correct this situation, and if so, how?

[1] Source: Department of State, Central Files, 737.00/12–757. Confidential. Drafted by Smith, Braddock, and Topping. This despatch replied to MID's request for comment on a November 21 memorandum by Wieland and Stewart entitled, "Possible United States Courses of Action in Restoring Normalcy to Cuba." The MID officials wrote that if the United States decided to make efforts to bring Batista and the opposition together and these efforts failed, three alternative courses of action suggested themselves. One was to return to a policy of aloofness from Cuba and allow internal political forces in Cuba to run their course with possible chaotic consequences. Another was to diminish the brutality of the Cuban armed forces by warning Batista that if he did not discipline his troops, the United States would suspend all military supplies and equipment to Cuba. The third was to adopt harsher measures to curtail the revolutionary activities of the anti-Batista Cuban exiles in the United States if they should refuse to negotiate with the President of Cuba. Wieland and Stewart recommended, "That we attempt to explore the situation to determine whether there is a possibility of Batista and the opposition reaching an agreement to hold free elections. If not, we should then determine whether to take any of the measures suggested above, or alternative action, and to clarify publicly our position in the Cuban crisis. This should be done in close consultation with our Embassy in Cuba and with any Cuban leaders deemed appropriate." (*Ibid.*, 737.00/11–2157)

Discussion:

For this unhappy situation both the Government of President Fulgencio Batista and the diverse forces opposing him are responsible. Beginning with the coup d'etat of Batista in 1952, action and counter-action have followed each other in close succession, with many excesses on both sides, until now it will be very hard for either, unaided, to check the train of events that is carrying Cuba toward disaster.

President Batista whose term is scheduled to expire in February 1959, has called general elections for June 1, 1958. The opposition is united only in a determination to get rid of Batista; it is disorganized and suffers from personal rivalries and from disagreement as to the methods to pursue in accomplishing its objective. The opposition is unable to agree on a leader or program. Responsible oppositionists would prefer to defeat Batista at the polls, but fear that the elections will not be free and honest and that Batista will arrange the election of his approved successor and will retain the power behind the government.

There is evidence to support their fears. The elections of 1954 were marred by intimidation and corruption. Recently approved legislation is generally interpreted as providing for Batista to assume command of the nation's armed forces including the police, when his term ends. Some opposition leaders have been harassed and intimidated. Constitutional guarantees including freedom of speech, press and assembly have been suspended for seven of the past eleven months, and are still suspended.

A considerable portion of the opposition now advocates and practices violence to overthrow the regime. Their principal leaders are Carlos Prio and Fidel Castro. They do not advocate elections. Their immediate interest is the early downfall of Batista, through any means possible. The Cuban Government accuses Castro of being a Communist, but has not produced evidence to substantiate the charge. In 1953 Castro publicly advocated a socialistic program including nationalization of public utilities. (American owned)[2] He has since modified his views but probably not abandoned them.

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[2] In a speech on October 16, 1953, Castro supported grants of land to small planters and peasants, with indemnification to the former owners; the rights of workers to share in profits; a greater share of the cane crop to all planters; and confiscation of all illegally obtained property. His land reform advocated maximum holdings for agricultural enterprises and the distribution of remaining land to farming families; it also provided for encouragement of agricultural cooperatives for the common use of costly equipment, cold storage, and a uniform professional direction in cultivation and breeding. In addition, the speech expressed the intention of nationalizing the electric and telephone companies. For text, see *What Happened in Cuba? A Documentary History* by Robert F. Smith (New York, 1963), pp. 254–259.

There is constant conspiracy against the Government, both inside Cuba and by Cuban political refugees in other countries, including our own. In the past twenty months there have been two unsuccessful conspiracies within the armed forces. (Barquin conspiracy[3] and Cienfuegos uprising.) A rebel force led by Fidel Castro has held out in the mountains of Oriente Province for the past year, in spite of determined efforts of the armed forces to eliminate it. Some oppositionists, including Castro's supporters, now engage in terrorism. Formerly limited to Molotov cocktails and bombings, this has recently been extended to include the burning of sugar cane fields and tobacco barns in an attempt to overthrow Batista by seriously damaging the national economy.

The Government has resorted to increasingly harsh countermeasures in its efforts to eliminate terrorism and violence and destruction of property. Several military and police figures have become notorious for the extreme brutal measures they have adopted.

Some civic and professional institutions, unsuccessful in their attempts to bring Government and opposition together, are disheartened and have registered their protest.

The Government appears incapable of overcoming the perpetrators of violence among the opposition, and the revolutionary groups appear incapable of overthrowing the Government. Unless the trend is arrested, we may expect a continuation of the present unhealthy and explosive situation. The overthrow or assassination of Batista or fraudulent elections might well result in a time of chaos and anarchy. It is to be expected that the communists would step up their efforts to exploit such a troubled period.

If Batista continues his present course and is successful in imposing a continuation of his regime, the result will be a dictatorship, with Batista as the strong man. Sooner or later, there would again be an eruption of violence, terrorism and bloodshed.

Neither of those prospects is desirable for the United States. A time of bloodshed chaos and vandalism, marked by weak, ineffective and short-lived governments, would represent a grave danger for American lives and property. A dictatorship would further weaken the democratic institutions of the nation (which already exist more in form than substance), and threaten their continued existence.

Our interests, and those of Cuba, would best be served by the continuation in office of the present government until the end of its

[3] Colonel Ramón Barquin of the Cuban army, with the help of Justo Carrillo, who headed a civilian organization of business and professional men, led an unsuccessful coup d'état against Batista in April 1956. Documentation is in Department of State, Central File 737.00.

elected term or at least until after elections; by the holding of free, open and honest elections at an early date, as prescribed by the Constitution; and by the emergence of an administration which would have the support of a majority of the people and be able to maintain law and order, and fulfill Cuba's international obligations. Because of the unsatisfactory and dangerous alternatives we should take all feasible and necessary measures, short of intervention, to achieve that outcome. It is consonant with our objectives in Latin America, both as expressed in our own studies and as set forth at various places in our Inter-American commitments, perhaps most specifically in Article 5(d) of the Charter of the Organization of American States, reading: "The solidarity of the American States and the high aims which are sought through it require the political organization of those States on the basis of the effective exercise of representative democracy".[4]

To achieve the results we desire, actions by both the Cuban Government and the opposition groups would be necessary. As a first and essential step, Constitutional Guarantees would have to be restored at an early date. The Ambassador is attempting to promote their restoration through conversations with Batista. Batista has privately indicated to the Ambassador that it is his purpose and intention to restore all guarantees during January, 1958, but has made no public comment in that regard. The Foreign Minister has repeatedly told the Ambassador he believed the President would restore all guarantees by the middle of January. Batista was non-committal on a suggestion from the Ambassador that it would be helpful to the President's position in Cuba and public relations in the United States if he were to make a statement in the near future of his intention to restore guarantees in time to assure free, open and honest elections. Since Batista finds the restoration of Constitutional Guarantees difficult and risky as long as terrorism and conspiracy threaten his Government, we should continue and if necessary intensify pressure on oppositionists in the United States, including particularly Carlos Prio, by the Department of Justice.

The actions of the Justice Department against Prio have placed us in a strong position, and we should take advantage of this. The Ambassador believes that without any intervention he can now obtain a promise from Batista and a public statement from Batista to restore guarantees in January, if he is given the authority to proceed.

Further steps will probably then be necessary. In order to allay the fears of the opposition, those police and military figures who have come to symbolize Governmental excesses may have to be replaced by the Government of Cuba. Clearly, the Government

[4] For text of the Charter, April 30, 1948, see 2 UST (pt. 2) 2416.

would expect some concrete indications from the responsible opposition that terrorism will be abandoned.

From that point, all interested parties could negotiate a mutually acceptable arrangement for holding elections, in which at least the bulk of the opposition would participate. This would be a complicated and confused matter, since the opposition is badly divided, with a great number of spokesmen. Almost certainly, the opposition would require that the Government agree to an amnesty for those accused or convicted of committing political offenses, whether civilians or military. In return, the opposition would have to renounce its expressed determination to wreck eventual vengeance on many Governmental figures, including Batista. The Government might permit Castro and his principle lieutenants to leave the country, and give amnesty to his followers. The Government should affirm its intention to hold honest elections, under the observation of representatives of the world press. All parties would have to agree, tacitly or otherwise, to accept the results of the elections. In any such negotiations, the views of the Government, the various responsible opposition groups, the Army, civic and professional institutions, and organized labor would have to be considered.

The United States should carefully watch the progress of the foregoing program, and endeavor to insure its success by appropriate statements and actions as required. A public statement by a high official, perhaps the Secretary, might be issued once guarantees were restored and a more tranquil atmosphere achieved.

Should either side endanger the program, the United States should consider bringing pressure to bear as necessary; firstly, by friendly reminders of adverse reactions within the United States; secondly, by reminders of the steps which might be taken; and as a last resort such steps could be taken. But we should bear constantly in mind that our objective is not only to restore peace and tranquility in Cuba but also to avoid any violent overthrow of the Government of Cuba which would lead to bloodshed and chaos. Our aim is for the installation of an administration which represents the wishes of the majority of the Cubans, has the support of the people, and can maintain law and order.

Recommendations:

1. That the United States intensify its efforts to bring about an early restoration of constitutional guarantees in Cuba.

2. That the United States intensify its efforts to bring about a cessation of terrorism and counter-terrorism in Cuba.

3. That the United States attempt through pressure and persuasion, short of intervention, to bring about an agreement between the

Government and the responsible opposition groups for the holding of free and open elections.

4. That the Ambassador be authorized immediately to proceed in accordance with Recommendation 1.

Earl E.T. Smith

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307. Memorandum From the Director of the Office of Middle American Affairs (Wieland) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, December 19, 1957.

SUBJECT

Policy Recommendation for Restoration of Normalcy in Cuba

Problem:

The political situation in Cuba has deteriorated to such an extent in recent months that the safety of our citizens and our substantial investments in that country (about $1 billion) is seriously threatened. This situation has resulted from a prolonged period of conspiratorial and terroristic activities by a disorganized opposition to unseat the dictatorial Batista Government and the retaliatory imposition of harsh disciplinary measures by the Government to counteract such activities. If the Government were to fall, the revolutionary opposition is at present so short-sighted and disjointed that a period of chaos and anarchy would likely follow which would be exploited to the fullest advantage by Communist and irresponsible elements within and without Cuba.

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Cuba. Secret. Drafted by Wieland and Leonhardy, this memorandum was forwarded to Rubottom under cover of a memorandum of December 23. Stewart stated that the policy recommendation of December 19, had been seen by Acting Director of the Office of Inter-American Regional Political Affairs Dreier, Hoyt, and Curtis, and that a copy had been sent to the Embassy in Habana with a request for comments. Stewart also stated that Wieland felt this memorandum represented the thinking of Ambassador Smith, but noted that the Embassy's comments in despatch 463, *supra*, in response to an earlier memorandum on this subject were restrained. Finally, Stewart wrote that if the Embassy concurred, the December 19 memorandum would "represent MID's thinking on the Cuban situation at this time."

Discussion:

The present Government came into power through a coup d'etat in March 1952 and later was returned to office in an uncontested election for a period of four years in 1954. President Batista's term is due to expire in February 1959 and general elections are scheduled for June 1, 1958. Batista has steadfastly maintained that he will abide by the Constitution and not run for the Presidency to succeed himself.

The opposition during the past two years has become increasingly militant. This has been particularly true since the successful landing in southeastern Cuba of a small rebel force under the command of Fidel Castro in December 1956. Rebel raids on military installations and the National Palace have been conducted during the past year interspersed with one unsuccessful uprising within the armed forces, numerous bombings and various other acts of sabotage and terrorism. These activities have been carried on for the most part by followers of Castro and ex-President Carlos Prio, who now openly advocate the complete sabotage of the Cuban sugar industry to produce the fall of Batista.

Castro has gained a considerable following particularly among the youth of Cuba during his year of resistance in the Sierra Maestra Mountains of Oriente Province and has attained almost complete military domination of that rugged area. He is variously termed a Communist by those who oppose him and a second José Marti[2] by his ardent supporters. His present philosophy and beliefs are not clear but even some of his prominent supporters have at times indicated their distrust of him.

Dr. Prio has been exiled in the United States since May 1956. He presently is under investigation by our Department of Justice for violation of our neutrality laws and there is every indication that he will be indicted early in January. He has little popular support even among the opposition and his following consists for the most part of paid mercenaries and those who seek his support only because of his substantial financial resources, all taken from the Cuban treasury.

Those in opposition to the Government are united only in their determination to oust Batista. Otherwise, they are disorganized and suffer from personal rivalries and from disagreement as to the methods to pursue in accomplishing its objective. The majority of the opposition leaders, many of whom are in exile in the United States, have refused to participate in the June 1958 elections because they failed to get what they consider adequate guarantees necessary

[2] Reference is to the Cuban revolutionary leader, essayist, and poet, who lived from 1853 to 1895.

for free and open elections and they maintain that the elections now scheduled will be "rigged". These elections with four Government coalition and four presently registered splinter opposition parties participating certainly would not be representative, as a large part of the electorate nominally follows those political groups whose leaders have refused to participate and who have recently joined with Castro followers and Dr. Prio to form a *Junta de Liberacion Cubana* (Cuban Liberation Council) in Miami. The Junta primarily has confined its program to ways and means of overthrowing the Batista regime and has left the issue of what is to follow to the mention of the establishment of a Provisional Government and a return to the Constitution of 1940. It is reported that the Junta and other opposition organizations are now attempting to decide on a person who would act as Provisional President if Batista were overthrown.

Between the intransigent positions of the Government and the militant oppositionists who advocate or support sabotage and terrorism as a means of ousting the Government, there apparently are many Cubans who are either apolitical or nominally opposed to the Government and who would welcome any move for a peaceful and democratic solution to Cuba's present dilemma. Within this large segment to the population probably lies the real hope for a solution.

Should there be further deterioration in the situation in Cuba or should there be a sudden overthrow of the present Government, the concurrent or resulting situation of chaos would most certainly:

1. endanger the lives of United States citizens in that country, their property and their investments;
2. impede the operation of the United States Sugar Act which would result in higher sugar prices to the United States consumers; and
3. encourage the resurgence of communistic and ultranationalistic elements in Cuba which would constitute a severe setback for United States policy and a blow to our leadership in the hemisphere.

Recommendation:

During my recent trip to Cuba[3] I had the opportunity to discuss the Cuban situation with the Embassy and with members of the Cuban press, Government officials, oppositionists, and prominent

[3] In a letter to Stewart, December 3, Wieland reported from Habana that he had talked with many people there. He wrote: "All these, except for ourselves, appear agreed that there is no solution to the problem while Batista remains in office. We on the other hand feel that however small the odds may be, we would be unjustified in failing to make substantial effort, by using all available persuasion and means short of intervention, to try to bring about a peaceful and constitutional solution without going over the line into intervention. In so doing, we can expect that Batista has strong support in the CTC [Confederation of Cuban Workers], and elsewhere as you know." Wieland further stated he was confident that the Ambassador felt "that we in

American residents. I understand that the Ambassador, Deputy Chief of Mission and others of his staff agree substantially with the analysis of the situation summarized in this memorandum, which is being forwarded to Habana for the Embassy's comments. I am convinced that our interest would be best served by the continuation of the present Cuban Government in office until the end of its term, under less tense conditions than now prevail there. We should take various measures short of intervention in an attempt to influence Batista to take the initiative in trying to create a suitable climate for honest and open elections which would be acceptable to the more responsible elements within the opposition and would appeal to that large element of the Cuban populace which still desires a peaceful solution. Our action should be confined to continued friendly suggestion during conversations principally between Batista and our Ambassador combined with various methods of suasion open to us and would be consonant with our overall objectives in Latin America as expressed in NSC 5613/1, "Outline Plan of Operations for Latin America"[*sic*], section IB, (1)(b)[4] and as set forth in our inter-American commitments as specifically outlined in Article 5(d) of the Charter of the Organization of American States. Such action might follow in several phases outlined as follows:

Phase I

Our Ambassador would be instructed to increase his present efforts to persuade Batista to initiate within the immediate future certain measures which would have a moderating effect on the opposition and create an atmosphere for compromise.

Cuban orders for United States arms should be approved at once, although no shipments should go forward without specific clearance, in an understanding between State and Defense. The Ambassador should be instructed to see Batista to advise him directly of this action. He could point out to Batista that this action will involve the United States Government in severe criticism unless the Cuban Government takes prompt measures to improve its own position by curtailing brutalities and restoring guarantees. The Ambassador might refer to his previous conversations with Batista and the latter's indicated desire to restore normalcy to Cuba. He could assure Batista that his suggestions came out of our genuine interest to be of assistance toward this end, and when adopted, would have the effect of demonstrating to the Cuban populace which of those

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the Department and he and his people here are thinking along identical lines and are back-stopping each other." (Department of State, Central Files, 737.00/12–357)

[4] Reference is to Document 18.

among the opposition were genuinely interested in resorting to ballots instead of bullets to reach a solution.

He could point out that constructive action at this time by Batista, particularly when opposition activities appear to be at a low point, would give the impression of (a) a confident government demonstrating statesmanship and strength; (b) tend to swing the majority of the population into a peaceful campaign for healthy elections and away from the present tendency toward increasing violence; (c) by doing so, also tend to force the extreme radicals in the Castro and terrorist forces into isolated positions where, with less support from public opinion, they would be more vulnerable to proper control by the authorities which should have, under improved conditions, more support from Cuban public opinion; (d) help clarify issues in United States public opinion by demonstrating a government making a dramatic and sincere effort to restore peace and carry on normal, peaceful, democratic processes rather than permit United States opinion to continue with the impression of Batista operating a police state using extreme brutalities as its only means of remaining in power; (e) the improved United States public opinion would, by reflection, help Batista in turn to carry out a more constructive program; and (f) if successful in the above, enable Batista to leave public office after 25 years of political service with a successful record instead of a record of failure. His favorable position in Cuban and hemispheric history would thus be assured rather than endangered if the present state of crisis is prolonged or intensified.

In making his proposal the Ambassador would remind Batista (1) that our Government has exerted considerable effort in recent months to prevent arms shipments from this country by Cuban rebel elements and has carried on an exhaustive investigation into the possible violation of our neutrality laws by Cuban exiles including Dr. Prio, and (2) sales of arms to Cuba will continue despite the considerable adverse criticism we have been receiving from our press, the general United States public and our Congress for such sales, with the understanding that the arms will not be misused and that the Government will take constructive measures to ease the critical situation existing in Cuba. On this basis we should attempt to persuade Batista to take the six following successive steps toward creating a favorable political atmosphere in Cuba:

1. Early restoration of Constitutional Guarantees now suspended until January 27, 1958.
2. At least a partial amnesty for political prisoners.
3. A public statement denouncing violence on both sides, pledging strict punishment of all law enforcement agents who exercise

unnecessary brutality in carrying out their missions, and appealing to oppositionists also to cease terrorism and sabotage.

4. An appeal, subsequent to the restoration of constitutional guarantees, to the competent members of the Judiciary to discourage sabotage and terrorism through proper and strict application of existing laws.

5. An appeal to the press through its leaders to agree to publish only the facts on past events and to refrain from inciting rebellion through exaggeration or distortion of the facts, or through incendiary editorials and articles.

6. A quiet removal, transfer, or retirement of those military and police officers who have been notorious for their excessive brutalities in the past as well as a gradual withdrawal and dissolution of hated Masferrer goon squads.

Phase II

If Batista could be encouraged to take the steps outlined in Phase I, in whole or in part, the way would be paved for him or his representatives to initiate a series of meetings intended to establish a propitious electoral climate. These meetings might include himself or civilian and military representatives of his Government and pro-Government political parties; representatives of the "responsible opposition parties" functioning in Cuba; and church, press, principal civic organizations and professional societies, including educational federations. If these meetings show any sign of even relative success, overtures could be made to leaders of at least some of the less virulent exile groups in the United States. The purpose of the meetings would be to seek at least minimal terms for an understanding among the contending forces for an acceptable election, with assurances the results would be respected.

If a significant part of Phase I, or any other constructive measures contributing toward the same end, and a substantial part of Phase II are undertaken by Batista, the State Department should consider a public statement praising the efforts of the Cuban Government to effect a peaceful solution to the disturbances there.

We would suggest to Batista that he reiterate at such meetings his desire to retire from the Cuban political scene at the end of his present term and to state categorically that he has no intention to serve in the capacity of Chief of the New General Staff of the Armed Forces. Also, we would encourage those in the opposition who sought our opinion on such meetings to participate in them.

Phase III

This phase would *only* be initiated if the militant opposition remained intransigent subsequent to steps taken by the Government towards creating a climate favorable to elections. Should the opposition refuse to participate in the elections, we would express on every

occasion in our discussions with its members our view that the Government provided sufficient incentives which were not availed of and their failure to do so left us with no alternative but to provide full and open support for the present regime. This would include the continued supply of arms and continued measures to discourage Cuban exile activities in this country. At the same time we would encourage the holding of fair elections within the narrow confines now envisioned and the naming of a competent and able candidate by the Government coalition parties. If a sizeable vote could be polled and a respectable man elected to the Presidency by the Government, there would remain the possibility that he might provide a transition towards a more democratic form of Government.

Phase IV

This phase would be considered *only* if Batista were to exhibit complete unwillingness to take the steps outlined in Phase I or other constructive measures in sufficient degree to create a climate suitable for elections. It would consist of taking action short of intervention designed to hasten the ultimate fall of the Batista regime while at the same time encouraging those responsible elements within the opposition to adopt a program which would provide adequate assurances for the protection of American lives, property and investments in Cuba once a provisional Government was in power. Specific action short of intervention which we could take to quicken the downfall of the regime would be to make a public announcement of cessation of arms shipments to Cuba and withdrawal of our military missions from Cuba on the grounds of usage of MAP equipment without our prior authorization.

DOMINICAN REPUBLIC

POLITICAL, ECONOMIC, AND MILITARY RELATIONS OF THE UNITED STATES AND THE DOMINICAN REPUBLIC[1]

308. Memorandum of a Conversation, Department of State, Washington, April 26, 1956[2]

SUBJECT

Disappearance of Dr. Jesus de Galindez, Spanish Republican Exile

PARTICIPANTS

Attorney General Herbert Brownell
J. Edgar Hoover, Director of the FBI
Warren Olney, Assistant Secretary General[3]
Henry A. Hoyt, Officer in Charge, MID/C

President Eisenhower was asked at his press conference yesterday whether it is incumbent on the Justice Department to investigate charges that foreign agents are involved in the disappearance from New York of Dr. Jesus de Galindez. Mr. Brownell wanted information on the case in order to inform the President.

Mr. Hoover explained the details of the case and some of the circumstances surrounding the disappearance of Galindez, a Spanish republican exile who had been teaching at Columbia University. Galindez disappeared from New York on March 12, 1956, and certain groups in New York, including the Inter-American Press Association, the Inter-American Association for Defense of Democracy, and groups in which Norman Thomas is active have claimed that Galindez was either abducted or murdered by agents of the Dominican Government. These claims are based largely on the fact that Galindez had formerly resided in the Dominican Republic and was, at the time of his disappearance, preparing to publish a book critical of the Dominican Government and particularly its leader, Generalissimo Rafael Trujillo. The claims also cite previous such

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[1] Continued from *Foreign Relations*, 1952–1954, vol. IV, pp. 927 ff.

[2] Source: Department of State, Holland Files: Lot 57 D 295, Dominican Republic. Confidential. Drafted by Hoyt. Forwarded to Hoover under cover of a memorandum of April 27 from Holland.

[3] Warren Olney, III, Assistant Attorney General and head of the Criminal Division of the Department of Justice.

instances in which Dominican agents have been involved as proof of Dominican Government action against its enemies. These claims have been accompanied by numerous anti-Trujillo articles in the New York press.

Mr. Hoover said that the case had also taken on somewhat of a political aspect in that Franklin D. Roosevelt, Jr., and Charles P. Clark had just registered as agents for the Dominican Government. Roosevelt had been scheduled to speak at some political meetings scheduled by Democrat leader Carmine DeSapio and that Dominican anti-Trujillo factions in New York threatened to picket the meeting because of the presence of Mr. Roosevelt.[4]

Mr. Hoover explained that the New York City police are actively investigating the disappearance of Galindez as a missing persons case. The FBI is maintaining very close contact with the New York police and has also conducted certain out-of-town interviews of persons who might have information or might be in some way connected with the case. The FBI also has one of the suspects in the case under investigation under the Registration Act. The New York City police investigation to date has failed to reveal any evidence of foul play. There is no proof that federal laws have been violated nor is their substantiation of the claim that any foreign agent is involved. Mr. Hoover, therefore, recommended that the Department of Justice not become involved in the case on any other basis than its present one of close liaison with the New York City police and aiding the police in certain out-of-town activities.

The Attorney General asked whether the State Department had initiated any action with respect to this case. I told him that it had not; that the Department had received numerous letters from the same group mentioned by Mr. Hoover, on charges of Dominican involvement in the case, but that the Department had no evidence of any Dominican participation in the matter. I stated that it was the Department's opinion that it should be guided by the Department of Justice recommendations on the matter and that the Department certainly did not have evidence which would cause it to recommend investigation of the case on the basis of possible involvement of foreign agents. I also stated that the Department was receiving on almost a daily basis the FBI and New York City police reports on their investigations, and appreciated being kept so thoroughly informed, and that the Department would, of course, make available to Justice any information it might obtain on the case.

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[4] Mr. Roosevelt and Mr. Clark came to the Department this afternoon to inform the Department that they are now working as legal counsel for the Dominican Government. [Footnote in the source text.]

Mr. Brownell agreed with Mr. Hoover's recommendations and said he would so inform the President.

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309. Editorial Note

On June 15 representatives of the United States and the Dominican Republic signed in Washington an "Agreement for Cooperation Between the Government of the United States of America and the Government of the Dominican Republic Concerning the Civil Uses of Atomic Energy." The agreement was signed by Holland; Lewis L. Strauss, Chairman of the United States Atomic Energy Commission; and Joaquin E. Salazar, the Dominican Ambassador in the United States. For text of the agreement, see 7 UST (pt. 3) 3397.

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310. Letter From the Special Assistant to the Under Secretary of State for Mutual Security Affairs (Barnes) to the Assistant Secretary of Defense for International Security Affairs (Gray)[1]

Washington, December 6, 1956.

DEAR MR. GRAY: The Department of State has received from the Dominican Ambassador notes No. 2658 and No. 2659 dated November 5, 1956,[2] copies of which are attached, expressing the desire of the Dominican Government to obtain from the United States twenty type PCS ships and six steam-turbine destroyers. The former are to be used for coastguard service and potentially for anti-submarine warfare and the latter to replace units the repair of which is stated to be uneconomical.

It is my understanding that at the time the ship loan program for Latin America was developed, the Department of Defense did not include the Dominican Republic in the program since it was of the opinion that the Dominican Republic was not capable at that

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[1] Source: Department of State, Central Files, 739.5–MSP/11–556. Confidential.
[2] Neither printed. (*Ibid.*)

time of absorbing additional naval vessels. I should therefore appreciate the views of the Department of Defense as to the present needs of the Dominican Republic for additional naval vessels and specifically its views with regard to these particular requests.

For your information, the Department of State would not object in principle to the furnishing of additional naval vessels to the Dominican Republic in numbers not in excess of those proposed by the Department of Defense for other Latin American countries in the Caribbean area, provided that the Department of Defense considers that such vessels come within the military requirements of the Dominican Republic.[3]

Robert G. Barnes

[3] In a letter dated March 4, 1957, William M. Leffingwell writing for Thomas P. Pike informed Barnes that "The Joint Chiefs of Staff have determined that there is no military requirement in the Dominican Republic for these vessels at this time. Therefore, the Department of Defense does not favor the provision of the twenty PCS ships and six destroyers requested, on either a grant aid or a reimbursable aid basis." (*Ibid.*, 739.5–MSP/3–457) Leffingwell and Pike were Special Assistants to the Assistant Secretary of Defense for International Security Affairs.

311. Telegram From the Ambassador in the Dominican Republic (Pheiffer) to the Department of State[1]

Ciudad Trujillo, December 7, 1956—noon.

243. Gerald Lester Murphy, bearer US passport No. 790 (FS 165714) issued July 16, 1956, next of kin father, Lester G. Murphy, address, 1445 Manzana Way, Eugene, Oregon, missing since afternoon December 3, 1956. Car found abandoned near city. Murphy was co-pilot Compania Dominicana Aviacion[2] but resigned on November 19. Since then has visited Miami and returned as extra crew CDA. Apparently planned to leave Ciudad Trujillo as advertised his effects for sale day prior his disappearance.

Consul has contacted Dominican police who safeguarding his personal possessions and apparently making thorough search for him.

Incomplete information indicates following possibilities:

[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/12–756. Confidential; Priority.

[2] The national airline of the Dominican Republic, CDA.

(1) Robbery, in view large sums money stated to be sometimes in his possession;
(2) Suicide, in view of his recent despondency;
(3) Political victim, either of Dominicans or Cubans or Communists, in view of his possible involvement in clandestine activities, or;
(4) Escape by sea. Despatch follows.[3]

Suggest Department notify father and ask if he has late news of son's whereabouts. Please advise Embassy by telegram results conversation with father.

Pheiffer

[3] In despatch 294 from Ciudad Trujillo, also December 7, Harry M. Lofton, Second Secretary and Consul of the Embassy, submitted a digest of statements made to him and other Embassy officers by people acquainted with Gerald Murphy. The despatch concluded: "From the above it is apparent that the subject engaged in some sort of clandestine activities. The Embassy cannot overrule the possibility that he met foul play at unknown hands." (Department of State, Central Files, 239.1122–Murphy, Gerald Lester/12–756)

312. Memorandum From the Officer in Charge of Dominican Republic Affairs (Fromer) to the Director of the Office of Middle American Affairs (Neal)[1]

Washington, January 7, 1957.

SUBJECT

Re-Evaluation of Overall U.S. Policy Towards Dominican Republic

Problem:

Various developments over the past months appear to require at this time a stock-taking and re-evaluation of our overall attitude towards the Dominican Republic, especially in view of the pending matters which we are being called upon to decide involving assistance of one kind or another to the Dominicans.

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Confidential.

Pending Matters:

1. Dominican application for Export-Import Bank loan[2]

A. Action on next project (equipment) is due in mid-January, following suspension, at Dominican request, of waterworks project.

2. U.S. Invitations to Lieutenant General José García Trujillo, Minister of Armed Forces

A. Department of Defense official visit to U.S.
B. Air Force visit to Robins Air Base, Georgia, starting on January 31, 1957.
C. Army visit to Caribbean Command exercises in April 1957.

3. Dominican requests for military equipment

A. Six destroyers and twenty PCS-type ships.
B. One B–26, one C–54 and two C–47 aircraft, and four helicopters.

4. Dominican request for training for "Ramfis"[3]

A. Two places for Fort Leavenworth course beginning in August 1957.
B. Two U.S. Army officers to tutor him from January to June 1957.

Negative Developments:

1. Dominican actions against Cuba

A. Radio and press attacks against Batista.
B. Movement of Anti-Batista Cubans to and through Dominican Republic.
C. ALUSNA . . . and Embassy reports of Dominican financing, arming and instructing of certain Cuban revolutionaries.
D. Keeping alive Cuban-Haitian troubles.

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[2] A memorandum of conversation dated June 21 by Hoyt records that Ambassador Salazar informed the Department of State that his government was interested in obtaining a loan from the Export-Import Bank to finance projects in electrification and housing, and highway, airport, and irrigation construction. Salazar stated the Dominican Government was interested in a loan of approximately $25 million. (*Ibid.*, Holland Files: Lot 57 D 295, Dominican Republic)

A memorandum of conversation dated September 28 by Julian P. Fromer records that Vance Brand, a director of the Export-Import Bank, stated that the Bank had reconsidered its plan to make a loan to the Dominican Republic, and was prepared to approve a $4 million line of credit for the Dominican Government to improve the waterworks system of the capital. (*Ibid.*, Central Files, 839.10/9–2856)

A memorandum of conversation dated October 2 by Fromer stated that Rubottom informed Manuel de Moya, Dominican Minister of State without Portfolio, and Milton Messina, Governor of the Central Bank of the Dominican Republic, that the Export-Import Bank would postpone announcement of the approval of a loan to the Dominican Republic. Rubottom added that the line of credit to finance the waterworks project had been approved by the Bank. (*Ibid.*, 839.2614/10–256)

[3] Rafael L. Trujillo, Jr.

2. Murphy case

A. Evidence Gerald Lester Murphy involved in Cuban and Galindez affairs.
B. Suspicious nature of his disappearance.

3. Dominican pressure on U.S. firms in Dominican Republic

A. Seeing "handwriting on wall", West Indies Sugar Corporation selling out to Trujillo.
B. Lock Joint Pipe company under press attack, loan action held up by Dominicans.
C. U.S. accountants fear new law will force them out of business.
D. ALCOA required to pay higher duties on bauxite exports.

4. Improper Dominican Consular activities in the U.S., especially N.Y.C.

A. Organizing picketing demonstrations.
B. Carrying on unregistered foreign agent activities.
C. Assignment of undesirable officers.

5. Dominican violation of ICA Education Agreement

A. Normal schools, now under our supervision, to be turned over to Spanish religious groups.

Positive Developments:

1. Dominicans have given assurances:

A. Radio and press attacks to cease.
B. Cuban "visitors" to leave unarmed.

2. Cuban Minister of Agriculture to visit Dominican Livestock show.

Discussion:

The basic question is:

Shall we take a negative or go-slow attitude on pending matters listed above because we feel that the attitude and policies of the Dominican Republic have not been compatible with our own national interests and we should therefore apply some pressure to bring about what we feel is the required change in Dominican conduct?

1. Until the recent Dominican assurances regarding its relations with Cuba, we had at least some reason to act. Now, we have to wait and see if these assurances are maintained. The Cubans (despite Batista's *Vision* interview) have made a friendly move in the decision to send the Cuban Minister of Agriculture[4] to the Dominican Republic.

[4] Fidel Barreto Martínez.

2. As for the Murphy case, the Embassy in Ciudad Trujillo has begun to veer towards the possibility that Murphy was done away with by Dominican Government agents. We must consider, even if the case is never solved, that if any details become public, we will be faced by a critical press campaign which could easily outdo the one generated by the Galindez case. If this happens, any evidence of U.S. support or assistance to the Dominican Republic, however justifiable it may be on some grounds, will certainly come under domestic attack on others.

3. The evidence we have of efforts by the Trujillo regime to pressure, if not drive out, U.S. investment in the Dominican Republic must cause us to consider whether we would not, given the centralized Dominican economy, be helping to finance this process through an Eximbank loan. For example, to pay off the West Indies Sugar Corporation, Trujillo needs dollars which he indirectly would receive through such a loan.

4. Since nearly all the evidence on this count comes from FBI sources, it is up to the Department of Justice to decide what, if anything, should be done. Apparently, some consideration is being given to possible prosecution of one unregistered Dominican agent.

5. Démarche of ICA Education Chief to Cabinet Minister in early December has resulted in postponement, at least temporarily, of the projected Dominican move to supplant our technical assistance program unilaterally.

Recommendations:

I would recommend the following approach:

1. We should tie our attitude toward such things as arms requests, training of Dominican military, et cetera, with Dominican conduct towards Cuba. If the Dominicans prove to our satisfaction that they are maintaining their end of the bargain, we should act affirmatively on pending matters 2, 3 and 4, within limits set down by the Department of Defense. In view of the present necessity to wait and see, we should take no action on these matters at this time.

2. Action on the Eximbank loan should be linked to Dominican treatment of U.S. investment in the Dominican Republic. Yet, in practice, such a link is difficult to apply. Aside from appropriate occasions when informal verbal representations are possible, the only practical method seems to be through the pacing and speed with which action is taken on the various project applications. Whether or not the Eximbank is prepared to follow such a strategy is another thing. As a general rule, for the present, I would recommend a leisurely, rather than hurried, treatment by the Bank. And anytime that we feel the situation demands it, we can ask the Bank to hold up further action.

3. The Murphy case is so unclear that for the moment there appears to be no other attitude to take than a cautious unprejudiced one. We must be prepared for a renewed outburst of anti-Dominican opinion in the United States at any time that this case becomes another cause célèbre. We will then have to react accordingly.

4. We should continue to follow closely the activities of Dominican Consular officers in the United States. Where evidence justified—as in Puerto Rico a few months ago—we should request the recall of officials who behave improperly.

5. We should seek every opportunity to indicate as delicately as possible upon appropriate Dominican officials, preferably from the Generalissimo down, any move to cut the ground out from under the ICA Education program would not be compatible with their professed and repeated admiration for the United States and everything American.

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313. Editorial Note

In telegram 261 from Ciudad Trujillo, December 17, 1956, Ambassador Pheiffer reported the following: "Embassy opinion Octavio De La Maza, CDA co-pilot possible key to breaking case. Appeared Embassy highly agitated condition two days after Murphy's car discovered. Urgently wished to obtain visa for father and sister. At time Embassy discounted obvious nervousness, but now evaluation of actions indicate possible serious involvement some deep problem necessitating urgent removal relatives from this country." Pheiffer added that he "suggested to Dominican authorities that De La Maza be interrogated." (Department of State, Central Files, 239.1122–Murphy, Gerald Lester/12–1756)

In telegram 286 from Ciudad Trujillo, January 7, 1957, Stephens reported that Dominican Minister of Justice Rafael F. Bonnelly had informed him that De La Maza committed suicide that morning in the prison cell where he was being held by Dominican authorities. Stephens stated he was shown an "alleged suicide note claiming De La Maza responsible for Murphy's death." (*Ibid.*, 239.1122–Murphy, Gerald Lester/1–757)

In telegram 233 to Ciudad Trujillo, dated January 8, the Department informed the Embassy it was "not satisfied Dominican version de la Maza death." The telegram, drafted by Julian P. Fromer, stated further: "Dept believes GODR attempting discourage further Mur-

phy investigation especially his activities their behalf prior disappearance." (*Ibid.*)

A typescript copy of the purported De La Maza suicide note and an English translation were transmitted to the Department of State in despatch 370 from Ciudad Trujillo, January 9. (*Ibid.*, 1–957)

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314. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Deputy Under Secretary of State for Political Affairs (Murphy)[1]

Washington, January 15, 1957.

SUBJECT

Disappearance of Gerald Lester Murphy and Death of Octavio de la Maza

Gerald Lester Murphy was a 23 year-old airplane pilot, native of Eugene, Oregon. On December 3, 1956, he left his apartment in Ciudad Trujillo at 4 P.M. and has not been seen again.

Since his disappearance, the following information has been turned up about him by U.S. Agencies:

1. From sometime in February, 1956 until late November, 1956 he was employed as a co-pilot for the *Compania Dominicana de Aviacion.* For several months previously, he apparently served as "personal pilot" for Brigadier General Arturo Espaillat, at that time Under-Secretary of State for Armed Forces. (Espaillat became Dominican Consul General in New York City around May, 1956.)

2. Murphy told his American fiancee[2] that in March, 1956 he flew an apparently drugged man in a light plane non-stop from New York to Ciudad Trujillo. He later "learned" the man was Jesus de Galindez, anti-Trujillo Spanish exile who disappeared from New York City on March 12, 1956. Murphy told at least one other person the same story, and also indicated to an American pilot who shared a room with him in Ciudad Trujillo that he, Murphy, "knew" what had happened to Galindez.

3. Murphy once related to his fiancee (showing her a bag full of U.S. currency) and to a confidential informant of unknown reliabili-

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[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/1–1557. Confidential.

[2] Celia (Sally) Caire, a Pan American Airlines hostess.

ty that he had been assigned to deliver funds from Generalissimo Trujillo to Cuban revolutionaries in Cuba. He also told at least two other Americans that he had been asked by "certain" Dominican officials to fly a plane over Habana and bomb the city.

4. Most of the persons interviewed who knew Murphy, during his approximately one-year stay in the Dominican Republic agree that he gave the appearance of being involved in some sort of clandestine activities, presumably on behalf of the Dominican Government, if not Generalissimo Trujillo himself.

5. Several sources agree that Murphy's employment by CDA, and subsequent favored treatment, from CDA executives, caused a certain dissatisfaction among Dominican pilots in the CDA. One source (the former American pilot roommate previously referred to) told an SY agent in Miami that a certain Octavio de la Maza, had been particularly resentful of Murphy's special influence in CDA.

From Murphy's disappearance until recently, Embassy Ciudad Trujillo was dealing with the Dominican authorities in the same manner in which we normally would deal with any other government in an effort to locate Murphy. In line with this policy an Embassy officer disclosed to the Dominican Attorney General on the afternoon of December 17, 1956, that "possible 'bad blood' might have existed between Murphy and de la Maza". That same evening de la Maza was arrested and held incommunicado.

On January 7, at noon, our Chargé was informed that de la Maza had hanged himself in his cell at 4 A.M. that morning. The Chargé was shown an alleged suicide note in which de la Maza said he had met Murphy the evening of December 3rd, that they went to the site near the sea where Murphy's automobile was later found, that Murphy had made "improper advances", that there was a struggle during which Murphy fell into the sea, and that de la Maza had decided to kill himself out of remorse.

Developments since January 7 have been as follows:

1. Embassy Ciudad Trujillo has indicated its belief that de la Maza was murdered by the Dominican authorities in an attempt to provide a solution for Murphy's disappearance. It is to be noted in this regard that twice, in talks with our Chargé, the Dominican Foreign Minister has pointedly recalled that the Embassy had tipped the Dominicans off to the de la Maza–Murphy link.

2. Various offices of the Department which have been involved with the Murphy–de la Maza cases—SCA, SY, SCS, ARA/P and MID/C—agree that numerous questionable circumstances at this time justify the conclusion de la Maza's alleged suicide is obviously a Dominican strategem designed to discourage any U.S. inquiries about Murphy, especially because of his reported activities as a Trujillo agent. For our part, we have instructed our Embassy to

avoid giving the Dominicans any indication that we consider the Murphy case closed.

3. We have asked through our Embassy that the Dominican Government furnish us with the original suicide note on loan, the stenographic record of/or other interviews with de la Maza, a certified copy of the death certificate and a certified copy of the autopsy, if one had been performed. Our suggested explanation for the Dominicans was that these documents would enable us to fulfill the various normal legal formalities required in closing cases of missing persons such as Murphy. Actually, we wanted to get on the record our efforts to get the fullest information from the Dominican authorities, at the same time indicating we still were not ready to forget about Murphy.

4. The UP carried an article on January 11 saying the United States Government had requested the Dominican Government to continue its investigation of Murphy's disappearance, and quoting official circles in Washington as not precluding the possibility of political motives in connection with Murphy's disappearance. On January 12 the Dominican Foreign Minister confronted our Chargé with the text of this article and asked him to obtain the Department's views regarding it. The Foreign Minister seemed particularly concerned lest this article mark the beginning of a U.S. press campaign against the Dominican Republic.

5. On January 12, the Dominican Foreign Minister during an unusually long meeting with Embassy officers insistently sought to ascertain our position. Our Embassy comments that "the probing by the Foreign Minister reveals as nothing heretofore the probable intimate relations between Murphy and Generalissimo Trujillo and the Galindez affair." The Embassy further believes our pressure on the Dominicans should be kept alive by releasing bits and pieces to the press.

Our Recommended Attitude:

1. We should simply say that we are not responsible for the article. It represents the efforts of a private press agency reporter and the Dominican Republic is aware of the independent press in this country.

2. However, we should tell the Dominicans that on the basis of all available information which has reached us, we cannot consider Murphy's disappearance as solved simply because of de la Maza's confession. The possibility still remains that for some reasons still unknown to us de la Maza may have deliberately lied in his suicide note. In view of Congressional and press interest as well as our obligation to the Murphy family, we are required to continue our inquiries.

3. For the time being, we prefer to keep our pressure on the Dominican Government directly, rather than through possible press "leaks". We have therefore instructed our Embassy to request from the Dominican authorities a full report containing whatever information they may have or can procure concerning Murphy's stay in the Dominican Republic—his employment, his personal life and associations, et cetera.

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315. Despatch From the Chargé in the Dominican Republic (Stephens) to the Department of State[1]

No. 393 *Ciudad Trujillo, January 16, 1957.*

REF

Embtel 311, January 14, 1957
Deptel 239, January 15, 1957
Embdes 394, January 16, 1957[2]

SUBJECT

Tentative Conclusions on Murphy Case

Summary

Except for a brief acknowledgment of it, silence has enveloped the Murphy case during the past week since delivery of an Aide-Mémoire requesting further information on Murphy's activities prior to his disappearance.[3] The Dominican Government appears to be awaiting further U.S. actions, or at least more precise indications of U.S. intentions, before deciding how to proceed further. The present time, therefore, appears appropriate for an assessment of the lines of action that are available to both Governments in this matter. By its own actions, the Dominican Government has all but admitted an intimate connection with the disappearance of Murphy and related concerns. The United States, for its part, has rejected the "solution" put forth by the Dominicans attributing Murphy's death to Octavio de la Maza. While conclusions must still remain tentative, this case appears to offer an unusual opportunity, if effectively seized upon,

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[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/1–1657. Secret.

[2] None printed. (*Ibid.*)

[3] Dated January 15; transmitted to the Department in despatch 394 from Ciudad Trujillo, January 16.

for the United States to call a halt to certain inimical activities of the Trujillo regime directly affecting the United States. Among these are: the Dominican Government's practice of recruiting American citizens for its intelligence operations; the unlawful activities of Dominican representatives in the U.S. including the probable kidnapping of persons resident in the United States and enjoying the protection of its laws; the assigning of persons of dubious repute to Dominican diplomatic and consular missions in the United States. The U.S. posture in this case will determine, to an important degree, the respect which the Dominican Government has for the United States and the spirit of cooperativeness which flows therefrom.

Dominican Reaction to Murphy Case

The disappearance and probable death in the Dominican Republic of the 23 year old U.S. citizen Gerald Lester Murphy, and particularly the strange behavior of the Dominican Government following this unfortunate occurrence, cast into bold relief certain unsavory practices of this Government. While professing utmost cooperation on the part of its authorities in connection with the investigation of Murphy's disappearance, the Dominican Government has shown its lack of cooperation in the following ways:

(1) By its Note No. 254 of December 20, 1956, the Embassy requested a full police report of the investigations. This has produced, to date, only two brief acknowledgments, one on December 24, 1956 by Foreign Office Note No. 30519 and another on December 31, 1956 by Note No. 31037.[4] Up to the present time, no such report has been forthcoming from the Dominican Government.

(2) Note No. 277 of January 9, 1957 from the Embassy asked for (a) a copy of the de la Maza suicide note on loan, (b) copies of the interrogations and/or reports of interviews with de la Maza since his incarceration as a suspect, and (c) a certified copy of the death certificate. (No mention was made of an autopsy report since it was known for certain that no autopsy was performed.) The Foreign Minister[5] on January 12, 1957 formally stated that his Government could not provide these documents. What amounted to the latter document, however, was handed earlier to the Chargé d'Affaires by the Attorney General on January 7, 1957 (see despatch 384 of January 15, 1957).[6]

(3) Although requested on several occasions to provide copies of interrogation reports resulting from police investigations, including those of U.S. citizen employees of *Compañía Dominicana de Aviación,* the Dominican Government has failed to do so. The only interrogation reports received were those relating to the questioning of the father of Gerald Lester Murphy and his fiancée, Miss Celia Caire. These latter were obtained only on the insistence of an Embassy officer

[4] Neither found in Department of State files.
[5] Porfirio Herrera Báez, Minister of Foreign Affairs and Worship.
[6] Not printed.

immediately following the interviews and were supplied to the parties interrogated, not to the Embassy (later loaned by them to the Embassy).

(4) The Aide-Mémoire dated January 15, 1957 requesting a full report on the activities and associations of Gerald Lester Murphy prior to his disappearance has been acknowledged with the statement that "it has been forwarded to the competent Department for its information."

(5) On January 8, 1957, the Embassy was under police surveillance for several hours. Since that date, Embassy personnel have been occasionally shadowed going to and from places of recreation and their homes have been watched by plain clothes policemen. It appears that this surveillance ended on or about January 14, 1957.

All the above examples indicate a strong reluctance on the part of the Dominican Government to provide factual material in its possession arising out of investigations of the Murphy disappearance. Instead, this Government made a calculated effort to convince the U.S. Government that the Murphy case was completely solved by the alleged suicide of Octavio de la Maza and the suicide note supposedly written by him. The transparency of this deception led to its being abandoned within less than ten days after it was attempted. The Dominican Attorney General and the Foreign Office appear to have reached an impasse, not knowing how to proceed pending further instructions from Generalissimo Trujillo. Earlier efforts on their part to obtain clear indications of U.S. reactions and an idea of how much we knew about the Murphy case having been rebuffed, these Dominican officials now seem to be marking time to see what further action the U.S. Government may take on this matter.

Tentative Conclusions

As of possible value to the Department in formulating its future course of action with regard to this case, the Embassy offers below its tentative conclusions to date. These represent the consensus of views of the officers in the Embassy most directly concerned with this subject and should not be regarded as final evaluations, since many aspects of the matter remain obscure:

1. There is an intimate connection between Murphy's disappearance and the secret intelligence operations carried on by the Dominican Government. These operations include, among other things, the kidnapping or elimination of persons inimical to the Trujillo regime, transporting of messages and money to dissident elements in neighboring countries, and the possible suborning of officials of other Latin American Governments. The extent to which Murphy participated in these activities is not known, although his connection with them in one form or another appears certain.

2. The strongest evidence forthcoming thus far leading to the above conclusion arises not only from the FBI interrogations but also

from the extraordinary behavior of the Dominican Government following upon the disappearance of Murphy. This unusual behavior, which removes the Murphy disappearance from the category of normal deaths or disappearances abroad of American citizens, has been manifested in the following:

(a) The intense preoccupation of the Foreign Minister with the attitude of the United States Government, the extent of its information, its usual practices in disappearance cases, the extent to which publicity is likely, how Congressional inquiries are handled, the connection of the Department of State with past press commentary and like considerations.

(b) The unwillingness of the Dominican Government to supply requested documents which in any normal case could be considered routine.

(c) The categorical assertion that the de la Maza death solved the Murphy case, followed by a later retraction even though largely implied. Related to this is the willingness to resort to another death to close off investigation of the Murphy affair.

(d) The hesitation over the next step to be taken by the Dominican Government, apparently arising from a desire to see first what the U.S. position is likely to be.

3. It appears certain that a close relation does exist between the disappearance of Murphy and that of Jesús de Galíndez. Most persons having a direct knowledge of this latter event appear to have been eliminated already, but inferences can be drawn which lend credence to reports that Murphy was the pilot who transported Galíndez from New York City to the Dominican Republic.

4. On the basis of even partial evidence assembled to date, the U.S. Government is in a position to assert a strong reaction on this matter, demanding the cessation of certain Dominican actions inimical to the United States and to accepted standards of international behavior.

Possible Courses of Action Open to U.S.

The United States, having officially rejected the Dominican explanation of Murphy's disappearance, can either (a) let the matter drop following upon a period of Dominican inaction, or (b) draw certain conclusions from the events thus far accumulated and present these in a carefully calculated manner to the Dominican Government through its Embassy in Washington. The former course of action does not commend itself for many reasons, particularly because it would represent an about face from the position thus far taken and probably result in a loss of respect for the United States and its laws on the part of the Dominican Government. The latter course of action offers an opportunity to present in a forceful and unmistakable fashion the attitude of the United States Government with regard to such matters as: (a) the recruiting of young Americans like Murphy to work in the intelligence and/or secret services of the

Dominican Government; (b) the elimination of such individuals when they have outlived their usefulness to the Dominican Government; (c) the kidnapping of persons residing in the U.S. under the protection of its laws; (d) the carrying out of other unorthodox operations within the U.S. by officially accredited representatives of the Dominican Government. A warning to Generalissimo Trujillo to desist from the above in the future might be coupled with an assurance that the U.S. Government will make public the information available to it regarding these matters in the event such activities recur. Coupled with any other appropriate actions, this warning might produce some permanent good as a result of the unfortunate deaths of Murphy and de la Maza as well as other persons who may have had some knowledge of the disappearance of Jesús de Galíndez. This formal confrontation of the Dominican Government with the information now in the possession of the United States Government should be done with a minimum of publicity. Moreover, it should be handled, for reasons set forth below, in such a way as to insure maximum effect without further endangering innocent parties.

Besides the above Government to Government approach, sufficient information should be given to the American press to explain the actions taken by the U.S. Government following upon Murphy's disappearance. It is not felt by the Embassy that the Department should confirm publicly its belief, and this time, that a close connection exists between the Murphy and Galíndez disappearances. There will undoubtedly be much speculation in the press and in Congress that such is the case. However, official U.S. Government confirmation of the Dominican Government's responsibility for the kidnapping of Galíndez and for the deaths of Murphy and de la Maza should be withheld, for the time being at least, as an incentive to better behavior in the future on the part of the Dominican Government. The reasons why this course of action is being adopted could be explained privately to Members of Congress directly interested, if this were deemed necessary.

Probable Dominican Government Reaction to Strong U.S. Line

Anyone familiar with the Dominican Republic knows that whenever the words "Dominican Government" or the abbreviation GODR appear, the name Trujillo should be read in their stead. Embassy despatch No. 385 of January 15, 1957[7] suggests the atmosphere prevailing within the higher reaches of this Government wherein no voice of opposition on the smallest matter is raised to Trujillo. Lord Acton's dictum about absolute power corrupting abso-

[7] Not printed.

lutely applies in full force to Generalissimo Trujillo. Twenty-six years of absolute power, during which time any manifestation of opposition has been suppressed by the most direct methods, have produced in the Generalissimo a state of mind that is perhaps best characterized as utter ruthlessness combined with a sense of personal righteousness. In Trujillo's eye, after a quarter century of slavish obedience and enforced adulation, he probably appears to himself as some kind of a God-like man who is above and beyond the normal restraints of human society, all of his acts being justified to himself on the basis of what he has done for his country. Virtually all initiative and action within the country stem from him. The result is that responsibility for the good and evil that is done flows back to his doorstep as water rises to its source. The sacrifice of Octavio de la Maza, despite his known friendship with Trujillo's son Ramfis and the transparency of the attempted deception as embodied in the faked suicide note may be taken as an indication of how Trujillo operates when his personal reputation and prestige are at stake. There seems to be little doubt that he would prefer to let the Galíndez and Murphy cases die quietly. It is apparent, however, that this will not happen. Confronted with past press campaigns directed against him, Trujillo has responded by pouring money into loud denials of the charges made against him. In addition, he has taken more direct measures to remove or influence those elements actively opposed to him. Similar conduct may be expected in this present imbroglio.

In practical terms, the above brief analysis of the man with whom the United States Government is forced to deal in this matter appears to mean that: (a) any steps taken by the U.S. Government should be calculated to "make the lightning strike" as close as possible to Trujillo with a view to influencing his future behavior insofar as this is possible; and (b) do this in such a way that no Dominicans or other innocent parties are exposed to Trujillo's wrath. Ideally, a confrontation of the facts in the Galíndez–Murphy–de la Maza matters, as deduced by the United States, should be made to Generalissimo Trujillo alone in his own office. Any other presentation of the United States viewpoint, whether in Ciudad Trujillo or in Washington, would have to be carefully written out for delivery to Trujillo. This is indispensable since it can be safely predicted that no Dominican national would dare to communicate verbally to the Generalissimo the substance of the charges made by the United States Government. It has been found necessary in the past to communicate all official messages, no matter on how trivial a matter, to the Dominican Government in written form. This has been done not so much to assure the accuracy of transmission as to protect the Foreign Minister or other Dominican officials. These men may as

easily as not be charged by the Generalissimo with deliberately distorting the meaning of the communication of the foreign government when it reaches him, if in verbal form. Consequently, the mode of transmission of a strong U.S. Government position must be carefully calculated in advance. While the Embassy stands ready to confront the Dominican Government with the full force of the facts in our possession, it is believed the Department may wish to do this on the highest level in Washington, D.C.

In summary, the reaction of the Dominican Government in this matter henceforth cannot be safely predicted. Stemming from Generalissimo Trujillo's complex personality, it may extend all the way from acceptance of the U.S. posture to a violent rejection of it.

Richard H. Stephens[8]

(This despatch was held until the return of Ambassador William T. Pheiffer. It has been seen and approved by the Ambassador.)

[8] Printed from a copy which bears this typed signature.

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316. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, January 24, 1957

SUBJECT

The Disappearance of Gerald Lester Murphy and his Possible Connection with Jesus de Galindez

On December 3, 1956, Gerald Lester Murphy, an American aviator who had been employed by the Dominican airline CDA, vanished in Ciudad Trujillo. On January 7, 1957, the Dominican Government announced the suicide of another CDA pilot, a Dominican named de la Maza, and quoted his alleged suicide note admitting responsibility for Murphy's death.

Aside from what we feel are the many inconsistencies in the Dominican version of the deaths of both Murphy and de la Maza, we suspect that Murphy had been engaged in clandestine activities on behalf of the Dominican Government; among them the abduction

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Secret.

of Jesus de Galindez, anti-Trujillo Spanish Basque exile, who vanished in New York City on March 12, 1956.

While the Dominican Government has indicated great concern over our inquiries about Murphy, the FBI has begun to turn up highly-sensitive evidence which may link conclusively the Galindez and Murphy cases. Inasmuch as the FBI investigation is still in progress, the Department, despite growing Congressional and press pressure, has until now refrained from disclosing any information beyond the bare facts. However, in view of Senator Morse's[2] charges that the Trujillo regime is responsible for Murphy's disappearance, a Departmental statement will be issued at noon, January 25.[3] The statement will summarize our efforts to clear up the Murphy case, without making any reference to his clandestine activities.

[2] Wayne Morse (D.–Ore.), a member of the Senate Foreign Relations Committee.
[3] For text, see Department of State *Bulletin*, February 11, 1957, p. 221.

317. Memorandum of a Conversation, Department of State, Washington, February 12, 1957[1]

SUBJECT

Case of Gerald Lester Murphy

PARTICIPANTS

Congressman Charles O. Porter[2]
Mr. Jack L. Billings, Administrative Assistant to Congressman Porter
Julian P. Fromer, Dominican Desk Officer

Congressman Porter first asked specific questions about the Murphy case. He wanted to know if the promised reports and documents had yet arrived from the Dominican Republic. I told him the last installment had been received by the Embassy on February 9, pouched on February 10 and so far to my knowledge unreceived in the Department. He wanted to know whether he could see and have use of the alleged suicide note of de la Maza. I replied that the decision was not mine to make but I would pass on his request. Mr. Billings interjected to ask what I thought would be the FBI's reaction if Congressman Porter would ask them about their investigations

[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/2–1257. Official Use Only. Drafted by Fromer.
[2] D.–Ore.

around New York City in connection with the report that Murphy had hired a plane there. I told them that I could not speak for the FBI and that the only way to find out what would be their reaction would be to call them. The Congressman indicated that he might do so.

In view of my indications that I could not tell them more than they already knew about Mr. Murphy, Congressman Porter asked me some questions about our economic relations with the Dominican Republic. He asked if the Dominican Republic owed us any money. I said "no". I told him they had repaid all their foreign debt in the late 1940's but now had pending with the Export-Import Bank an application for a line of credit totalling around $50 million. I explained that this consisted of a series of nine public works projects, the first for telecommunications system having been turned down by the Bank for not being satisfactory, the second having been suspended on request by the Dominicans, and that presumably the Bank was getting ready to consider the third, a project for highway construction and other kinds of machinery. In this regard, I explained in some detail the fear of the Lock Joint Pipe Company that it might be pushed out of the water works project. Since the Congressman seemed to know little about the Export-Import Bank, I also explained its background and functions.

In response to another question, I listed what were considered the principal U.S. investments in the Dominican Republic, which totalled approximately $90 million in 1955 according to our Department of Commerce figures. I listed in sugar, the South Puerto Rican Sugar Company; in mining, the Aluminum Corporation of America; the Barium Steel Corporation, and the combine organized by William D. Pawley. When the Congressman asked me again of the possibility of off-shore oil negotiations with the Dominican Republic, I told him I knew nothing of such a thing, although it was possible that the concession given to Mr. Pawley might cover such rights. I also mentioned the Lock Joint Pipe Company, the Elmhurst Construction Company and the various U.S. petroleum distributors in the Dominican Republic, as well as the Ambassador Hotels, Inc., which operates the government-owned hotels in the Dominican Republic.

When our session broke up, the Congressman jocularly apologized for his "cross examination", adding "the experience might be useful in case there is a congressional hearing". The Congressman went on to say that he had assurances from Congressman Moss,[3] Chairman of the House Sub-Committee on Information, that if he, Porter, had any difficulty in getting copies of some of the documents

[3] John E. Moss, Jr. (D.–Calif.)

in the Murphy and de la Maza cases, Moss would detail one of his committee investigators, a Mr. Mitchell, to come over to the State Department to look into the matter.

It should also be mentioned that Congressman Porter again insisted on the point of who exactly in the State Department was responsible for handling the Murphy case and I again sought to explain how responsibility was divided up among various offices in the Department and possibly if anybody was responsible for knowing at least what was going on, it probably was me, although I made plain that decisions were taken upon orders from my superiors in MID and ARA, possibly right up to the Secretary.

Before Congressman Porter's arrival, Mr. Billings showed me various documents and publications on the Galindez case, as well as the Murphy and de la Maza cases. The most interesting was a letter to Congressman Porter from Nicolas Silfa, Secretary of the Dominican Revolutionary Party in New York City, who sent him a statement on the Murphy case. This statement said, among other things, that Murphy's body had been found somewhere in the Dominican Republic. (I have since passed this information on to Mr. Henry[4] in SY.)

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[4] Omer Henry, Assistant Chief of Domestic Investigations, Office of Security (SY), Department of State.

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318. Memorandum From the Officer in Charge of Dominican Republic Affairs (Fromer) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, February 15, 1957.

SUBJECT

Re-evaluation of Overall U.S. Policy Towards Dominican Republic in the Light of the Murphy Case Developments

Reference is made to my memorandum to Mr. Neal of January 7, 1957 (copy attached—Tab A),[2] to which you asked me to add in the light of subsequent developments.

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[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/2–1557. Secret.

[2] Document 312.

Background:

We now have the FBI summary as of January 28, 1957, which you have seen. In general terms, this discloses how Gerald Lester Murphy hired a light plane in Linden, New Jersey, six days before the anti-Trujillo Spanish Basque exile Jesus de Galindez disappeared in New York on March 12, 1956. After changing airports in the metropolitan area twice during which the plane's seats were removed and auxiliary gasoline tanks installed, Murphy took off from Long Island late in the night of March 12th for an airport in the Miami area which had been alerted previously by a telephone call from New York.

The plane carried an immobile man, who had been brought to the airport in a wheelchair, because of an alleged "cancer" condition. Apparently the same man was still aboard when the plane landed at a small suburban Miami airport early on the morning of the 13th, refueled and took off. Late the same afternoon, by which time the plane could have flown round-trip to Monte Cristi, Dominican Republic, Murphy landed at another Miami airport alone. Shortly thereafter, he replaced the seats which had been shipped from New York and eventually, on April 2, he returned the plane to its owner.

Without going into more details, it appears almost certain that Murphy was engaged in illicit activities on behalf of the Dominican Government, including the kidnapping of someone, who probably was Galindez.

Meanwhile, the Dominican Government has dragged its feet on our requests for information and documents regarding Murphy and Octavio de la Maza, the Dominican pilot whose suicide in a Ciudad Trujillo jail was announced by Dominican authorities on January 7. We finally now have a mass of reports and documents which in essence confirm the original official Dominican view that de la Maza was responsible for Murphy's disappearance. Without waiting on the results of the detailed examination and study, we see no reason for dissenting from what is the consensus of non-official Dominican opinion in both the Dominican Republic and this country that de la Maza's death and alleged suicide note smack of a contrived official Dominican attempt to close the Murphy case for good.

Discussion:

Our reaction must be guided at least by these circumstances:

1. Murphy, whatever he did, was an American citizen and therefore entitled to our protection. Moreover, his parents and newspapers and members of Congress on their behalf are demanding to know what happened to him and why. They are particularly insistent that the Department pressure the Dominican Government for the fullest cooperation in solving Murphy's disappearance.

2. Whatever the truth of the matter, the Dominican Government has been acting as if it has something to hide.

3. Nothing should be done by the Department which might impede the FBI investigation still very much in progress.

4. Nevertheless, in view of the growing possibility that the full details of the Murphy–Galindez link will ultimately be disclosed, the records of the Department must show, not only for domestic impact but also on other Governments, especially those of Latin America, that this investigation was relentlessly pursued without fear or favor, especially as regards the Dominican Republic.

5. The ultimate test in determining our position should not be whether there is enough evidence to convict in a court of law. Rather, it is whether the U.S. Government is convinced to its own satisfaction where the guilt lies, and secondarily, what will be the general conclusion among not only our own people but the populations and governments of other nations who can be expected to have an interest in this matter.

Possible Courses of Action:

Now that the Dominicans have definitely concluded that de la Maza killed Murphy and then committed suicide and in so many words have made clear they consider these cases closed, it is recommended that you consider the following possible courses of action:

1. The Department could implement Embassy Ciudad Trujillo's recommendations in Despatch 393 (copy attached—Tab B).[3] Ambassador Salazar would be called in to see the Under Secretary/G. He would be given the brief summary outlined above of our evidence concerning this one facet of Murphy's activities. We should add a brief reference to Murphy's alleged Cuban involvement. Then, we should touch on Espaillat's[4] activities, especially in New York, and also mention the molestation to American citizens of Dominican nationality on various occasions. (A draft talking paper is attached—Tab C). On the Ambassador's departure, we should hand him a note (see Tab D).[5] While a minimum amount of publicity is advocated, we should disclose to the press that we have called in the Dominican Ambassador to inform him that we are not satisfied with his Government's replies to our requests for the fullest information and documentation concerning Murphy's disappearance. We should add that we still cannot accept the explanation that de la Maza killed Murphy regardless of the authenticity of the suicide note ascribed to the former.

2. To reflect U.S. dissatisfaction and displeasure over this turn of events in our relations with the Dominican Republic, we could:

a. Suspend indefinitely action on the Dominican Eximbank loan applications.

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[3] Document 315.

[4] Arturo R. Espaillat, Alternate Representative of the Dominican Republic at the United Nations and Consul General in New York City.

[5] Neither Tab C or D is printed.

b. Keep at a low level our representation at February 27 (Independence Day) Dominican receptions here and at other embassies abroad. In addition, our Ambassador might be called home for consultations, coinciding with this celebration in Ciudad Trujillo.

c. In the event of a change in our Ambassadors, delay the appointment of a successor for several months.

d. Discourage visits to the Dominican Republic by high ranking civilian and military officers of the United States.

3. A carefully-drawn public statement, cleared with Justice, including the FBI, could be issued at a high governmental level (possibly using the technique of an unidentified official) along the lines of Point (2) in Embtel 360—that "information in the possession of the U.S. Government leads to the conclusion that a link exists between the Murphy and Galindez disappearances and that the de la Maza confession whether valid or not leaves many questions unanswered".

Possible Dominican Reactions:

1. Expulsion of two Embassy officers most intimately concerned with prodding investigation of Murphy case reported in Embassy Despatch 463.

Discussion:

Without hesitation, we should retaliate by declaring persona non grata at least one Dominican Embassy officer and Consul General Espaillat (if he is gone, we should make it *two* Dominican Embassy officers).

2. The Dominican Republic might stop taking a position in U.N. meetings in support of the U.S.

Discussion:

In view of Generalissimo Trujillo's self-proclaimed anti-Communist role, it is not likely he would jeopardize the main prop of his public political position by having the Dominican Republic vote with the Communist bloc.

3. The Dominican Republic might refuse to sign the pending Loran[6] agreement.

Discussion:

As of now, they are still holding out for a concrete landing strip. The Coast Guard, while it prefers a site in the Dominican Republic, has already indicated it would accept a site in Haiti—which we probably could eventually arrange.

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[6] Reference is to a long-range navigation system consisting of a series of transmitting stations to be used by the U.S. Navy as a navigational aid.

4. The Dominican Republic might terminate the Sabana guided missile air base agreement.

Discussion:

Such abrogation would be a breach of an international obligation. But it would be a blow to our defense program. The Air Force considers this base quite important though not absolutely indispensable, since alternative sites, more expensive and not so satisfactory, could be procured elsewhere.

5. The Dominican Government might apply pressure on the few remaining large U.S. investors in the Dominican Republic.

Discussion:

The record shows that U.S. investors are always subject to the whim of Trujillo's feelings. The West Indies Sugar Corporation was pushed out, the Lockjoint Pipe Company is under fire now anyway and Alcoa is being pressured for larger royalty payments. We have comparatively little left beside the South Puerto Rico Sugar Company and William Pawley's mining interests.[7]

In conclusion, it appears that any strong reaction by the Dominican Government against the United States would result in more harm than good to the Dominican Republic, and therefore extreme measures by that country are unlikely.

Arguments for a Strong Reaction:

1. The internal security of the U.S. would be strengthened.

Discussion:

Dominican intelligence activities including recruitment of American citizens as agents and pressures on U.S. citizens and organizations are likely to be curtailed by our sharp crackdown.

2. Given the overwhelmingly-universal dislike of the Trujillo regime among the peoples and nations of the world, especially throughout Latin America, we would win added respect as a proponent of democracy.

Discussion:

The Dominicans could not criticize us for intervening in their internal affairs. In fact, we would be complaining about their interference. The responsible elements of the Dominican people would learn that we refuse to put up forever with Trujillo's methods. Domestic critics of U.S. foreign policy on grounds of its lack of

[7] A handwritten note in the margin next to this paragraph reads: "settled".

principles for "playing along" with dictators would be effectively silenced. In sum, we would win much more applause than criticism, both domestically and abroad.

3. Not to be overlooked, we would be asserting our right to protect American citizens overseas—despite whatever misdeeds they may have committed.

Discussion:

L informs me that we maintain a person is innocent until proven guilty. We insist people be given fair trials and equal justice. We defended the rights of Noel Field, the Rotterbach boy recently expelled from Hungary, etc. Whatever Murphy did, we must seek to clear up his disappearance if possible.

4. We have patiently borne up under the following record of not only Dominican interference in U.S. life but also conduct below the level of recognized civilized nations, certainly not much above that of the communists:

a. Murders of anti-Trujillo Dominicans such as Bencosme and Requena[8] in New York City by Dominican agents;

b. Activities of such Dominican agents as Felix Hernandez Marquez (El Cojo) and Gloria Viera (since reportedly murdered in the Dominican Republic), and Alberto Pena Aybar.

c. Recruitment of Murphy, his employment to spirit Galindez (if not him, who?) out of the U.S., apparent murder of Murphy, then de la Maza. Now, Murphy's maid is missing and de la Maza's father-in-law is in jeopardy.

d. Molestation of naturalized American citizens of Dominican origin in the United States; firing their relatives in the Dominican Republic and forcing these naturalized American citizens to write letters to Trujillo apologizing for having changed nationality. Also publishing in the Dominican Republic lists of Dominicans who have become American citizens and threatening them with fines and imprisonment.

e. Distribution of virulent literature in the U.S. libelling such U.S. officials as Munoz Marin[9] and making offensive remarks about prominent Americans such as former President Truman.

f. Causing, at least in one known instance, one resident in the United States to lose his job by going to his employer with derogatory information, true or otherwise—all because of Trujillo's desire to send his daughter to a certain U.S. school.

g. Setting up subsidized front organizations which picket and attack in other ways U.S. publications and individuals in violation of U.S. law. This crime is compounded by using Dominican consular officers improperly as the brains and treasurers of such organizations. It is also reported that Puerto Rico groups and one newspaper,

[8] Donato Bencosme, a former governor of Espaillat Province, Dominican Republic, and Andrés Requena.

[9] Luis Muñoz Marin, Governor of the Commonwealth of Puerto Rico.

representing elements favoring independence from the United States, are being financed by Dominican funds.

h. We also have abundant evidence of Trujillo involvement in Cuban politics, thus disturbing peaceful Caribbean relations to the detriment of the U.S. aims in the area. A pointed example was Dominican attempts to exacerbate Cuban-Haitian relations in connection with the shootings at the Haitian Embassy in Habana.

(*Note:* This is not to pretend that the above list is all-inclusive.)

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319. Telegram From the Secretary of State to the Embassy in the Dominican Republic[1]

Washington, February 19, 1957—4:56 p.m.

281. Following brief summary FBI report January 28 indicating Murphy link with disappearance Galindez:

March 6 Murphy rented twin-engine Beechcraft plane Linden, New Jersey, paying $1500 cash one-month rental. About 10th Murphy flew plane Staten Island where removed two seats and installed four gasoline drums inside cabin as auxiliary tanks. Then moved plane Newark. March 12 Murphy took plane to another airport near Amityville, Long Island. Same night about 11:30 two men brought immobile man in collapsible wheelchair to airport where he was loaded plane which took off piloted by Murphy. Early hours March 13 plane landed airport near Miami refueled both regular tanks and those inside cabin and departed. During refueling airport attendant who not allowed into cabin observed inside what appeared to be person lying on something with at least one other person sitting in corner. Noted also peculiar unpleasant stench from cabin. Late same afternoon Murphy landed plane at another small airport Miami area where remained 10 days. Seats Murphy had removed March 10 were shipped Miami where he picked up March 23 and reinstalled. After several other hops Bahamas and Ohio Murphy returned plane to owner in Linden April 2.

Intensive investigation failed to disclose any record plane having landed anywhere in US from early March 13 until late afternoon. FBI has calculated using Murphy's charts and other sources he flew to Monte Cristi, landed his passengers there and returned alone

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[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/2–1957. Secret; Limit Distribution.

Florida. Also noted de la Maza reportedly made secret flight from Ciudad Trujillo to airport Monte Cristi carrying two armed guards about time Galindez disappearance.

Above summary is only for information Ambassador and Embassy officers he feels should be apprised contents. No part summary should be divulged unauthorized persons.

(FYI) *Time-Life* teams of reporters developed their facts independently of FBI investigation.

Dulles

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320. Memorandum for the Files, by Spencer M. King[1]

Washington, February 20, 1957.

SUBJECT

Interest of Other Agencies in State of US Relations with the Dominican Republic

At Mr. Rubottom's request, this morning, I telephoned . . . CIA and Col. H.W. Taylor in the Department of Defense, and in guarded terms requested the high-level opinion of their respective agencies as to the possible interest they would have were this Government to take action against the Dominican Consul General in New York which might conceivably lead to a break in diplomatic relations; although this would not be expected. (Both had sufficient background in the Murphy–Galíndez–Espaillat affair to understand.)

. . . phoned back to tell me that he had consulted appropriate officials in his agency and that there was no objection to the proposed action against Consul General Espaillat. . . .

Col. Taylor phoned me at noon to state that the Air Force position had been developed and transmitted to the office of Mr. Gordon Gray (ISA), which would be in touch with me shortly. At my urging, he explained, completely unofficially, that the Air Force considered installations in the Dominican Republic to be "vital" and that they "must be maintained." Subsequently, Captain Stewart of Mr. Gray's office telephoned. He explained that the missiles facilities in question had three objectives; observation, destruction and the maintenance of a manned repeater link in the interconnecting cable.

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[1] Source: Department of State, ARA Special Assistant's Files: Lot 59 D 376, Murphy Case. Secret.

The first two of these are not vital but the third is. Were there to be a break in diplomatic relations requiring the departure of all personnel, the repeater link could quite easily be converted to an unmanned one. Were it necessary to remove the installation itself, however, a serious problem would arise. Eventually it could be bypassed through other arrangements, but only at the expense of considerable sums of money and appreciable delay which would interfere with the missiles development program. He concurred that facilities "must be maintained." Gen. Fox,[2] acting as head of ISA in Mr. Gray's absence, subsequently confirmed this opinion to Mr. Rubottom by telephone. Still later, Captain Stewart called me again to say that this position had been considered by additional interested persons in the Pentagon, including the Special Assistant to the Secretary of Defense for Guided Missiles,[3] and that all were in agreement that the facility "must be maintained," although they recognized that other arrangements could be made in the event of absolute necessity.

I informed Mr. Rubottom of the foregoing.[4]

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[2] Lieutenant General Alonzo P. Fox, Military Adviser in the Office of International Security Affairs.

[3] Eger V. Murphree.

[4] Acting Assistant Secretary Rubottom reported in a memorandum of telephone conversation, February 20, that he had spoken with General Fox. According to the memorandum, Fox confirmed the view that the Department of Defense considered the guided missile facility in the Dominican Republic to be vital. (Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic)

321. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, February 20, 1957.

SUBJECT

United States Attitude Toward Dominican Republic

Question

Whether, as a result of the inadequate explanation of the Dominican Republic regarding the disappearance of Gerald Murphy and the various indications of the improper activities, including possibly murder and kidnapping, of certain Dominican officials in the United States, we should express our feeling toward the Dominican Government by declaring persona non grata the Consul General in New York.

Discussion

As I have explained to you in staff meeting, the case of the disappearance of a young American pilot, Gerald Murphy, last seen in Ciudad Trujillo in early December 1956, has become a cause célèbre. The reports of the Dominican Government of his disappearance and the attempt to place responsibility for his death on a Dominican citizen named de la Maza, who allegedly committed suicide out of remorse over his reported murder of Murphy, have not been satisfactory to this Department or the Department of Justice, although the Dominican Government considers the Murphy case closed.

Tomorrow *Life* magazine's feature story, contained in the first eight pages of the issue, presents the background of the Murphy case and ties his disappearance to the disappearance of the widely-known de Galindez, advancing the "theory" that Murphy disappeared following careless talk of his part in flying de Galindez out of the United States to the Dominican Republic. *Time-Life* investigation obviously paralleled current FBI investigations in the United States and there is much evidence in the story which has been confirmed, but unfortunately insufficient evidence has been made available to us to support a definite case against the Dominican Consul General, Señor Espaillat, who is reported to have been the one who recruited

[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/2–1957. Secret. A handwritten note at the top of the source text reads: "This memo did not go to Secretary. Mr. Murphy felt there was no need for this and approved it instead."

Murphy and who may have helped in the reported kidnapping of de Galindez as suggested by *Life* magazine. We do, however, have evidence of other improper activities by Dominican officials, including the Consul General.

The *Life* story will increase the pressure on the Department from virtually all of the U.S. press, certain members of the Congress, and liberal elements in Latin America and the U.S. to take action against the Dominican Republic. In satisfying these demands, however, the Department cannot overlook the risk that the Dominicans, in the event the U.S. publicly expresses its disapproval of its actions or those of any of its representatives, might retaliate against (1) our investors in the Dominican Republic whose holdings total nearly $100 million, (2) our guided missiles testing facilities there which the Defense Department considers "vital", and . . . .

In the absence of firm evidence linking the Dominican Consul General in New York to the disappearances of de Galindez and Murphy, I think that the U.S. should take no direct action against him, but rather should call in Ambassador Salazar and give him a very firm dressing down, indicating we have considerable knowledge of the improper activities of Dominican personnel in the United States and demanding that they be stopped immediately. We have reason to believe that Consul General Espaillat will soon be recalled by his Government in any event, and with the above-suggested warning to the Ambassador we will accomplish one of our main purposes, namely, to halt Dominican activities inimical to U.S. interests. This course of action will not, of course, satisfy all members of the Congress or the U.S. and Latin American liberal elements.

Recommendation

That you approve my informing the Dominican Ambassador along the lines outlined above and that we take no direct publicized action at this time against the Dominican Consul General in New York or any other official here.

322. Telegram From the Secretary of State to the Embassy in the Dominican Republic[1]

Washington, February 21, 1957—3:44 p.m.

286. Salazar summoned by Rubottom forenoon today and informed 1) US does not consider Murphy case closed on basis its continuing examination documents submitted by Dominican Government 2) Department aware certain activities Consul General Espaillat which seem go beyond normal functions of one carrying out consular and diplomatic responsibilities 3) Espaillat should cease at once any improper activities. Salazar appeared unusually subdued and acknowledged that Espaillat, as Military Officer, might not recognize bounds of consular and diplomatic functions. Salazar admitted knowing Espaillat once went to Pentagon. Rubottom replied our information indicates Espaillat in Dominican Army uniform threatened that unless his request granted Dominican military cooperation US would be decreased. Rubottom added that in this informal, unpublicized way he did not desire to enter into detailed discussion of Espaillat's questionable deeds but told Ambassador that US looked with grave concern on any foreigners engaging in recruiting Americans for illegal activities or themselves carrying out illegal operations in this country. Salazar indicated would transmit US views to his Government at once and also to Espaillat.

Salazar acknowledged having seen *Time* article of yesterday and *Life* piece today,[2] which he declared had made him ill. Described series as "trial by press" of Trujillo and expressed opinion that was almost irreparable setback to relations between US and Dominican peoples which would take long time to overcome. Surprisingly once referred to *Life* as "respectable" magazine. Stated that article describing Murphy as "nice boy" actually revealed him guilty of monstrous crime and showed that US police authorities unable prevent occurrence such alleged acts. Rubottom emphasized today's meeting unrelated to *Time-Life* stories.

Department now plans for Stephens[3] return soonest. On his arrival Ambassador authorized take leave as planned. Believe Department can convey best to Dominican authorities its confidence in

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[1] Source: Department of State, Central Files, 239.1122-Murphy, Gerald Lester/2-2157. Confidential; Niact.

[2] "The Story of a Dark International Conspiracy," *Life*, February 25, 1957, p. 24.

[3] Richard H. Stephens, Second Secretary, Embassy in the Dominican Republic.

Stephens by having him again left as Chargé d'Affaires until Ambassador returns or arrival Spalding.[4]

Dulles

[4] Francis L. Spalding became Counselor of Embassy in the Dominican Republic on March 10, 1957.

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323. Memorandum From Joseph J. Montllor of the Office of Middle American Affairs to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, April 3, 1957.

SUBJECT

Suggested Next Move in the Murphy Case

The controversy with the Dominican Government over the disappearance of Gerald Lester Murphy has reached a stalemate in that the Dominicans have taken a position from which they cannot retreat without severe embarrassment, while we officially indicate our skepticism of the findings of the judicial institutions of that country.

From the Dominican interim reply to our note of March 16[2] and the comments of Foreign Minister Herrera to Ambassador Pheiffer as well as those of Ambassador Salazar to you, we can anticipate that the final position of the Dominican Government with respect to the disappearance of Murphy will be the following:

1). The Dominican Government has exhausted its investigative and judicial resources in this case; and

[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/4–357. Confidential.

[2] In despatch 570 from Ciudad Trujillo, March 18, Pheiffer reported that he delivered the Department's note to Dominican Foreign Minister Porfirio Herrera Báez on March 16. In the despatch Pheiffer wrote that he told Herrera "my Government had come to the disturbing conclusion, based on expert opinion, that if the specimens of handwriting represented by the Dominican Government as being those of de la Maza are actually his, then the suicide note was not written by de la Maza. Dr. Herrera seemed shocked by this statement and said with emphasis that his Government had implicit faith in the contrary conclusion reached by its handwriting expert". According to the despatch, Herrera stated that the Dominican courts had determined that de la Maza was responsible for Murphy's death. The Foreign Minister further stated that "such judicial determination was within the inviolable sovereign rights of his country and that it is clearly settled in international law that such sovereignty cannot be attacked by the government of any other country." (*Ibid.*, 3–1857)

2). The parents of Murphy have accepted the findings of the Dominican investigations and have accepted, through their attorney, an award of $50,000 for damages.

The State Department has limited itself to asking the Dominican Government to reopen its investigation of the disappearance of Murphy, treating this case as if it were an isolated local incident. Our rejection of the findings of the Dominican judicial institutions can be construed as intervention in their domestic affairs unless the Murphy case is proven to have international overtones which we have not yet revealed to the Dominican Government.

Therefore, the next logical step is to change the locus of the Murphy case from the Dominican Republic to the United States. This can be effected by informing the Dominican Ambassador in Washington that our domestic investigations into Murphy's activities in this country indicate that he may have participated in the Galindez disappearance in association with certain Dominican nationals.

A note to the Dominican Embassy along the lines of the attached draft[3] would not only place us on a firmer position with the Dominicans, but would also put the Department on record as having moved independently, in the light of available facts, without being under Congressional or press pressure.

On the basis of FBI reports reaching the Department, I believe that the Department of Justice will eventually come up with indictments or other public action in the Murphy–Galindez case. In view of the letter which has been prepared for the Under Secretary to the Attorney General,[4] the Department's first move should be to consult with appropriate working-level officers in Justice regarding the suggested note. I am, therefore, asking you to authorize me to seek to clear the attached draft note on an informal basis with Justice. The questions of delivery, final text, and so forth, would be decided upon after obtaining from Justice its reaction to the note as well as

[3] In this draft note, the Department stated that in order to investigate the role of Arturo R. Espaillat in the Galíndez and Murphy cases "it would appear necessary and appropriate, if Minister Espaillat is to remain in New York, that his immunity be waived for the purposes of the matter under reference." The note further states: "Should the Government of the Dominican Republic not waive the immunity of Minister Espaillat, the Government of the United States considers that the Government of the Dominican Republic should agree to the immediate termination of his present assignments and status." (*Ibid.*, 4–357) For Espaillat's account of his role in the Murphy and Galíndez cases, see his book, *Trujillo: The Last Caesar* (Chicago, Regnery, 1963).

[4] In a letter of April 8 to Attorney General Brownell, Under Secretary of State Herter expressed his appreciation for the periodic reports on the Galíndez and Murphy investigations sent to the Department of State by the FBI. (Department of State, Central Files, 739.00/4–857)

an indication of the judicial action which that Department may be contemplating.[5]

[5] The following handwritten note appears at the bottom of the source text: "Additional comment: It would be understood no action on a note of the kind enclosed would be taken unless we had assurances from Justice that judicial action was contemplated. CAS". C. Allan Stewart was Deputy Director of the Office of Middle American Affairs.

A second handwritten note, dated April 12, also appears on the source text: "See King's memo re his . . . call on Justice which does *not* want note delivered yet." The memorandum drafted by King has not been found in Department of State files.

324. Editorial Note

In instruction 138 to Ciudad Trujillo, April 18, the Department of State informed the Embassy that action on the loan application made by the Dominican Republic to the Export-Import Bank was suspended until the Dominican Government requested reactivation of the application or until it was decided that reactivation and approval of the loan would be in the national interests of the United States. According to the instruction, drafted by Fromer, the suspension of the loan application was based on the following considerations:

"a) the continuing uncertain outcome of current United States investigations into the Murphy–Galindez cases, and b) the unsatisfactory record of the Dominican Government's conduct with regard to the American suppliers originally contemplated in its telecommunications and waterworks projects, and c) the Dominican Government's apparent decision not to press its application because of expected record sugar income this year." (Department of State, Central Files, 839.2614/4–1857)

325. Memorandum of a Conversation, Department of State, Washington, April 22, 1957[1]

SUBJECT

Murphy–de Galindez Case

PARTICIPANTS

Acting Attorney General Rogers[2]
Assistant Attorney General Olney[3]
Mr. Irons, Department of Justice
Assistant Secretary of State Rubottom
Acting Legal Advisor Raymond
Mr. Spencer M. King, ARA

Mr. Olney explained in some detail that the Department of Justice considered that indictment of John Joseph Frank under the Foreign Agents Registration Law might be imminent. He explained that a good case had been built up and witnesses found that would make it almost certain that a conviction on such a charge could be obtained. For example, he said that they had an excellent witness who would testify that she had written a number of reports which Frank addressed to Generalissimo Trujillo in which de Galindez' name appears. The reports apparently tie Frank into Dominican efforts to blacken the names of de Galindez and Silfa.[4]

It is also possible that an indictment may be sought against Frank for conspiracy to kidnap, although it may be that de Galindez' name would not be mentioned. However, Espaillat would almost certainly be named as a "co-conspirator" which Mr. Rogers explained did not necessarily mean that Espailiat would be on trial.

Since inevitably any action against Frank would be based on Dominican activities in this country, many of them "improper," the Department of Justice is fully aware that there would be foreign policy implications. Mr. Rogers asked Mr. Rubottom what the Department's position was. Mr. Rubottom replied that on the whole, the Department would be inclined to "let the chips fall where they may." Continual efforts are made to preserve the solidarity of the inter-American family of nations and admittedly at times our sense of morality and principle is sometimes strained. We would wish to be sure in this case that it was not just a "legal exercise," but if

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Secret; Limited Distribution. Drafted by King.

[2] William P. Rogers, Deputy Attorney General.

[3] Warren Olney, III, Assistant Attorney General, Criminal Division of the Department of Justice.

[4] Nicolas Silfa, Secretary of the Dominican Revolutionary Party in New York City.

there is really a case to be made, the Department of State certainly does not wish to try to cover up for the Dominican Government in any way.

Col. Raymond[5] asked if the Department of Justice would like to indict the Dominican Consul General in New York, Gen. Arturo Espaillat. The reply was a firm affirmative. Some discussion then followed as to what steps might best be taken with Espaillat with consideration being given to:

(a) Asking him to testify before a grand jury;
(b) Asking the Dominican Government to waive his immunity;[6]
(c) Informing the Dominican Government that his presence here is no longer acceptable.

It was generally agreed that (a) was impractical since, under District law, were he voluntarily to waive his immunity believing that the target of the investigation was Frank while he himself was really the target, he would gain immunity. Course of action (b) would undoubtedly be rejected by the Dominican Government and would probably result in Espaillat's recall by that Government. Course of action (c) would be appropriate once the case had broken and Espaillat's name mentioned.

It was agreed that the close coordination which has marked the handling of this case would be continued and that the Department of State would move ahead with a request that Espaillat's immunity be waived. The timing of the presentation of this request would be worked out in conjunction with the Department of Justice. The Department of Justice in turn will keep the Department of State advised as to its plans for Frank. The Department of State will also begin to prepare necessary background and press statements for use when the case breaks and the tie-in to the de Galindez and Murphy cases becomes apparent to the press.

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[5] John M. Raymond became Acting Legal Adviser to the Department of State on April 3, 1957.

[6] A handwritten note attached to the source text indicates that Rubottom asked King to hand carry the memorandum to Raymond for his clearance. A second note indicates that Raymond suggested a deletion from paragraph (b) of the memorandum and that King made the requested deletion. The deleted phrase reads "that he could be subpoenaed for such an appearance; and".

326. Memorandum of a Conversation, Department of State, Washington, May 2, 1957[1]

SUBJECT

Request for Lifting Diplomatic Immunity of Consul General Arturo R. Espaillat

PARTICIPANTS

R.R. Rubottom, Jr., Acting Assistant Secretary for Inter-American Affairs
Ambassador Salazar of the Dominican Republic
Julian P. Fromer, Dominican Desk Officer

Mr. Rubottom handed the Department's note[2] to Ambassador Salazar after summarizing it as follows: While the Dominican authorities have been investigating the disappearance of Gerald Lester Murphy in the Dominican Republic, the United States agencies have been looking into his activities in the United States prior to his disappearance. We now have evidence indicating that Murphy may have been connected with the Galindez disappearance. Both the Dominican Government and Espaillat personally have given assurances of their readiness to cooperate in solving the Murphy case. During our investigations, the name of Consul General Arturo R. Espaillat has figured repeatedly. Because of Espaillat's diplomatic immunity, it is impossible to ask his assistance. We therefore would like the Dominican Government, if it finds it convenient, to waive Espaillat's immunity in order to make him amenable to the usual and lawful procedures in matters of investigation and trial in the United States.

Mr. Rubottom expressed the hope that we could have the Dominican Republic's answer by next week.

Ambassador Salazar limited himself to saying that he was aware of Espaillat's statements of his willingness to cooperate in the Murphy–Galindez cases.[3]

Mr. Rubottom said we had no intention of making public this note at the present time, although he indicated that if developments

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Limited Official Use. Drafted by Fromer.

[2] Not found in Department of State files.

[3] A draft version of the note presented to Salazar includes the following statement made to the press by Espaillat on February 21:

"I am a graduate of West Point, and this country is my second home. I am ready at all times to join any authorized American body sincerely interested in clearing up this matter. I am convinced that the inherent American interest in fair play bars unsubstantiated accusations against the representative of a loyal and friendly nation." (Department of State, Central Files, 239.1122–Murphy, Gerald Lester/4–357)

in the future of a public nature required its contents be made known, we might have to reconsider our position.

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327. Editorial Note

On May 13, a Federal Grand Jury indicted John Joseph Frank on charges of having acted as an unregistered agent of the Government of the Dominican Republic in the United States. In circular instruction 4732, November 22, the Department informed various Embassies of this action. The instruction reads in part: "Evidence in possession of this Government indicates not only that Frank prepared intelligence reports on people such as the anti-Trujillo scholar, Dr. Jesus de Galindez, Department of Justice officials privately believe Frank was involved with Major General Arturo R. Espaillat and Gerald Lester Murphy in the kidnapping of Galindez on March 12, 1957, but they have been unable to date to prepare a sufficiently watertight case that would support indictments for conspiracy to kidnap." (Department of State, Central Files, 511.00/11–2257)

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328. Memorandum From Julian P. Fromer of the Office of Middle American Affairs to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, June 3, 1957.

SUBJECT

U.S. Military Assistance to Dominican Republic Through Fiscal Year 1957

Under the terms of the Bilateral Military Assistance Agreement signed by the United States and the Dominican Republic on March 6, 1953,[2] the Dominican Republic agreed to prepare and maintain one fighter squadron of aircraft and ten naval vessels for hemispheric purposes (force objectives, or force bases). The Dominican Repub-

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Secret.

[2] For text, see 4 UST (pt. 1) 185.

lic provided all the vessels and most of the aircraft for the units. Under the grant military aid program the United States has programmed for the Dominican Republic from the initiation of the program through fiscal 1957, a total of $4,117,000 of which $3,729,000 has been delivered.[3] A large part of this amount has gone for spare parts, maintenance equipment, training ammunition and training. Under the program, the ten naval vessels furnished by the Dominican Republic were modified to make them more effective for anti-submarine warfare purposes and four T–33 trainer jet aircraft were furnished to the Dominican Republic under the Grant Aid Program. Virtually no heavy equipment was furnished. Vampire jet fighters and Gloucester Meteor bombers bought from Great Britain by the Dominican Republic are not supported by the United States under the Grant Aid Program.

As of the end of calendar 1956, the Dominican Republic had purchased approximately one-half million dollars worth of military supplies and equipment from the United States. In this was included 25 F–47 aircraft used to prepare the squadron of fighters included in the force objectives, at a total cost of $341,047 (including spares and maintenance for one year).

The FY 1957 MAP program calls for modernizing fighter squadrons of obsolete aircraft included in the force bases of eight of the twelve countries with which we have MAP agreements with F 80C jets. The squadron of 13 aircraft planned for the Dominican Republic to replace its F–47's will be offered on a reimbursable, cash sale basis.

Eight of the twelve countries comprising the Bilateral Military Assistance Agreement have received aircraft from the United States. Of these eight, the Dominican Republic is the only one that has purchased its aircraft (with the exception of the four trainers mentioned above) on a cash basis.

On November 5, 1956, the Dominican Government sent two notes to the Department requesting that six destroyers and twenty type PCS vessels be furnished to the Dominican Republic either on a grant basis or as reimbursable aid.[4] The Department of Defense has indicated that the patrol craft are not available and that there is no military requirement in the Dominican Republic for six destroyers. The Dominican Republic will be informed that neither the patrol craft nor the destroyers can be made available at the present time.

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[3] The phrase "of which $3,729,000" appears as a marginal notation on the source text.

[4] Copies of these notes are in Department of State, Central Files, 739.5–MSP/11–556.

On December 7, 1956 a Naval Mission Agreement was signed with the Dominican Republic and U.S. naval personnel were assigned there to carry out the program.[5] However, during April of this year, both the Embassy at Ciudad Trujillo and the Chief of the U.S. Naval Mission[6] there recommended that the matériel program of the military assistance program be completely eliminated, that all procurement be stopped, and that no further funds or matériel be allocated to the Dominican Navy. It was also recommended that the role of the U.S. Naval Mission in the future be confined strictly to training activities. The reasons given for these recommendations were the inability of the Dominican Navy to maintain ships and material in a seaworthy condition, graft in purchasing and repair contracts and the assignment of trained personnel to duties which do not utilize their capabilities or training. Until such time as these defects were corrected, it was recommended that no further funds or materials be allocated to the Dominican Navy. The State Department has concurred with this position.

[5] For text, see 7 UST (pt. 3) 3238.
[6] Commander Ralph C. McCoy.

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329. Letter From the Special Assistant to the Under Secretary of State for Mutual Security Affairs (Barnes) to the Special Assistant to the Assistant Secretary of Defense for International Security Affairs (Leffingwell)[1]

Washington, July 22, 1957.

DEAR MR. LEFFINGWELL: On January 31, 1957, I wrote Mr. Pike concerning the proposal of the Department of Defense to modernize the F–47 squadrons in Ecuador, Cuba and the Dominican Republic.[2] I indicated that the Department of State concurred in a recommendation of the Department of Defense that a squadron of thirteen F–80C aircraft to modernize its F–47 squadron should be furnished to the Dominican Republic on a reimbursable basis.

At that time this Department had certain doubts as to the desirability of furnishing the Dominican Republic with jet aircraft. However, it was our understanding that the Department of Defense

[1] Source: Department of State, Central Files, 739.5621/7–2257. Confidential.
[2] Not found in Department of State files.

had determined, upon the recommendation of the Joint Chiefs of Staff, that there was a military requirement for the aircraft in question, and with this in mind a decision was reached to approve the recommendation that the aircraft be furnished on a reimbursable basis.

As a result of events which have taken place in the past few months and information which has become available to this Department, the question of the desirability of furnishing this aircraft to the Dominican Republic has been reviewed. This Department has now reached the conclusion that it is not in the interests of this Government to furnish F–80C aircraft to the Dominican Republic at the present time.

It is therefore requested that the Department of Defense take appropriate action to assure that the aircraft will not be furnished to the Dominican Republic at this time.

Sincerely yours,

Robert G. Barnes

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330. Letter From the Special Assistant to the Under Secretary of State for Mutual Security Affairs (Barnes) to the Assistant Secretary of Defense for International Security Affairs (Sprague)[1]

Washington, July 23, 1957.

DEAR MR. SPRAGUE: I refer to my letter of December 6, 1956,[2] regarding the desire of the Dominican Government to obtain either as grant aid or on a reimbursable basis twenty type PCS ships and six steam-turbine destroyers. In its reply of March 4, 1957,[3] the Department of Defense stated that it did not favor the provision of twenty PCS ships and six destroyers on either a grant aid or reimbursable basis. By diplomatic note of June 10, 1957, this Department informed the Dominican Embassy that its request could not be met.

This Department has now received note No. 2305 of July 8, 1957,[4] three copies of which are attached, from the Dominican

[1] Source: Department of State, Central Files, 739.5–MSP/7–2357. Confidential.
[2] Document 310.
[3] Not printed. (Department of State, Central Files, 739.5–MSP/3–457)
[4] The diplomatic notes have not been found in Department of State files.

Embassy requesting two steam-turbine destroyers on a five-year loan basis under the Military Assistance Program. I should appreciate the views of the Department of Defense as to the present need of the Dominican Republic for two destroyers and the possibility of such a loan (which would, I believe, require prior Congressional approval) if it should be determined that such a need exists.

As I noted in my letter of December 6, it is our understanding that the Department of Defense did not include the Dominican Republic in the ship loan program for Latin America since it was of the opinion that the Dominican Republic was not capable at that time of absorbing additional naval vessels. We have also been informed by our Embassy in Ciudad Trujillo that the Chief of the Naval Section of MAAG has recommended that no further matériel should be furnished for the Dominican Navy under the grant aid program until such time as the Dominican Navy meets the requirements listed in the "Military Assistance Programming Guidance". Our Embassy concurred, recommending that matériel be curtailed by a slow-down or foot-dragging process rather than by sudden cut-off.

It would appear then that the Dominican Government has not taken the necessary action to enable it to maintain and make effective use of the destroyers requested even if they were used to replace obsolete vessels of its Navy.

Therefore, if the Department of Defense should not favor lending two destroyers to the Dominican Republic at this time, the Department would be prepared to inform the Dominican Embassy that the request cannot be met.

Robert G. Barnes

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331. Letter From the Chargé in the Dominican Republic (Spalding) to the Deputy Director of the Office of Middle American Affairs (Stewart)[1]

Ciudad Trujillo, July 24, 1957.

DEAR ALLAN: With reference to Department's telegram 15 July 20 concerning indefinite postponement of the offer to sell 13 F–80C jet planes to the Dominican Republic because of important political

[1] Source: Department of State, Central Files, 739.5–MSP/7–2457. Confidential; Official–Informal.

considerations, I would like to explain that the Embassy's recommendation in Embassy telegram 558 dated June 21, which referred to FY 59 program planning for MAAG, did not envision any delivery prior July 1, 1958. Also, at the time of sending that telegram as well as during the preparation of the first submission for MAP guidance in the Embassy's Despatch 17 of July 10,[2] the Embassy was not aware that the Dominican Government was interested in purchase of these planes nor that United States was considering the sale of the planes for immediate delivery as is now reported by our MAAG here. The Dominican Government had maintained that it was unable to purchase the planes in addition to supporting them. The Dominican Government has apparently found funds for the purchase in spite of these previous assurances to the contrary.

I would appreciate it if you would clarify the Department's position by stating what were the "important political considerations". We think it might be either tension resulting from the Galindez–Murphy case, the question of planes for Cuba on grant of reimbursement aid, or possibly an intention not to strengthen dictatorships in general. If the political considerations are the first mentioned, it was my understanding that we were attempting to keep the Galindez–Murphy case as something apart and separate from our general over-all relations with the Dominican Republic and especially to try to prevent it entering into military considerations in which the Dominicans cooperate to the best of their ability.

We had hoped that programming for FY 1959 could continue subject to a later review of the political situation at some time nearer the projected FY 59 MAP delivery date. The Embassy would appreciate any comment you may be able to make on the above. Should any Dominicans request information on the subject, they will, of course, be told to seek such information through their Embassy in Washington, according to the Department's instruction.

Sincerely yours,

Fran

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[2] The referenced telegrams and despatch are not printed. They are *ibid.*, 739.5–MSP.

332. Letter From the Deputy Director of the Office of Middle American Affairs (Stewart) to the Chargé of the Embassy in the Dominican Republic (Spalding)[1]

Washington, July 26, 1957.

DEAR FRAN: I have just received your letter of July 24 asking for clarification on the Department's decision to postpone the sale of the 13 F–80C jet planes to the Dominican Republic.[2] I had planned to write earlier this week but delayed when Ambassador de Moya[3] asked for an interview with Mr. Rubottom[4] on July 24. Enclosed is a memorandum of that interview.[5]

We were not aware, either, that the Dominicans were negotiating for these planes until around July 5 when Munitions Control advised us that the Dominicans were asking for an export permit for the aircraft. We then found out that the Air Force had initiated negotiations with the Dominican Military Attaché here back in April, which was perfectly proper, as far as it was concerned, because we had not set any time limit on the sale when we notified Defense that the planes could be offered on a reimbursable basis. Apparently it was an oversight on the part of Defense in not mentioning to us that the negotiations were under way. About the middle of last week I got interested in the case and asked the Dominican Desk Officer to begin checking on the progress of the negotiation and he learned from REA that the Military Attaché had indicated to the Air Force that an acceptance and/or check would be handed to Defense by July 19. Mr. Rubottom took up the matter with Secretary Dulles at his staff meeting and it was unanimously concurred in by all present that the sale should be stopped at this time. This was done on the morning of July 19.

The prime reason for halting the sale was the fact that Congressman Porter had an amendment to the MSA calling for ceasing of economic and military aid to countries classified as dictatorships by the Secretary of State. This amendment was defeated last Friday. The sale of the aircraft to the Dominicans, had it gone through at about the same time, would have exposed us not only to criticism from those Congressmen who are conducting a campaign against

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[1] Source: Department of State, Central Files, 739.5–MSP/7–2457. Confidential; Official–Informal.

[2] *Supra.*

[3] Manuel A. de Moya became the Dominican Ambassador to the United States on June 3.

[4] Rubottom's appointment as Assistant Secretary of State for Inter-American Affairs was confirmed by the Senate on June 18.

[5] Not printed.

dictators but also from friendly Congressmen who banded together and succeeded in defeating the amendment. In your telegram No. 558 we noted that delivery of these planes was not contemplated before July 1, 1958 and also that the Embassy recorded that the Department would better be able to rule on the political implications of a deal of this nature. As I say, we did not learn of the negotiation until it was almost too late.

Regarding the FY 1958 program for the Dominican Republic, you may be interested in a recommendation made by Mr. Litsey of REA regarding the delivery of equipment to the Dominicans:

"It would appear that a complete cessation of grant aid at this time would be inadvisable.

"We should inform Defense that we favor a slow-down in the delivery of Navy equipment for the Dominican Republic, recommended by our Embassy. We should indicate that we consider the delivery of ammunition (except the depth charges and practice bombs) to be politically undesirable at this time and request that the ammunition listed above (10,000 rounds of ammunition for the 40 mm. guns; 3,000 rounds of 3' .50 caliber ammunition) be deleted from the program. We should be prepared to approve the sale of one squadron of thirteen F80C aircraft when the political climate warrants."

As this is not firm Department policy as yet I would appreciate your not mentioning it to U.S. military people in Ciudad Trujillo.

I am sorry to have delayed in sending an explanation of our action in postponing the sale of the planes but the enclosed memorandum should be helpful in explaining our reasons.[6]

With all best wishes,

Sincerely,

C. Allan Stewart[7]

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[6] In an August 1 letter, Spalding acknowledged receipt of Stewart's letter of July 26. (Department of State, Central Files, 739.5–MSP/8–157)

[7] Printed from a copy which bears this typed signature.

333. Memorandum From Weldon Litsey of the Office of Inter-American Regional Economic Affairs to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, July 26, 1957.

SUBJECT

MAP Grant Aid Program for Dominican Republic

Following our request for the withdrawal of the offer of thirteen F80C aircraft on a reimbursable basis to the Dominican Republic, the Department of Defense has informally asked our opinion with regard to implementation of the MAP grant aid program for the Dominican Republic.

Discussion:

The FY 1958 program for the Dominican Republic calls for matériel (including spare parts) valued at $841,000, the bulk of which is for the Navy and the balance for the Air Force.

Matériel for the Navy includes: *2—40 mm. twin mount guns* (heavy machine gun to be installed on their ships); *4—gun fire control systems* for use with these guns and with two similar guns previously furnished; *41 gun sights* for 20 mm. guns previously furnished; *10,000 rounds of ammunition* for the 40 mm. guns; *3,000 rounds of 3' .50 caliber ammunition; 200 depth charges* and *6 depth charge projectors* for anti-submarine warfare.

The Air Force matériel program consists of *900 2.25' practice rockets* and *120 general purpose bombs,* 750 lb.

The balance of programs for the Navy and the Air Force consists of the follow-on spares and training.

The lower echelons of the Navy have indicated informally that they consider the Navy MAP program for the Dominican Republic a political one and not of significance from a security point of view. If this view is shared by the Joint Chiefs of Staff and the Department of Defense, it appears that Defense might accept a recommendation from us to put the whole program on a reimbursable basis, if we consider this step desirable.

1. *Presumably, we could, without violating our Military Assistance Agreement with the Dominican Republic, put the program on a reimbursable basis.* We could inform the Department of Defense that we consider the program to be no political asset, or even to be a political liability and recommend it be put on a reimbursable basis. However, the possible

[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Confidential.

reaction of the Dominican Republic to this action would have to be considered. In Despatch No. 17 of July 10,[2] the Embassy has expressed the opinion that a reduction in grant military aid would probably limit the Dominican Republic's participation in the pursuit of MAP objectives. Purchases of equipment would probably be directed to non-U.S., more economical equipment. This would be undesirable to say the least.

The influence of our new Navy Mission and MAAG would probably drop sharply.

More serious would be the possibility that the Dominican Republic might interfere with or cancel our rights to use the guided missile base. The Air Force has indicated that this base is highly important, if not absolutely vital, to the long range proving grounds and the testing of missiles. Delays in the program and increased costs would be the very least effect of the denial of the use of the facilities in the Dominican Republic. While it is difficult to foresee the Dominican Republic's reaction regarding the guided missile facility, it is more likely that they might deny us the use of it if, in addition to withdrawing the offer of F80C planes, we ceased all grant military aid.

It would appear that a complete cessation of grant aid at this time would be inadvisable.

2. *We might recommend a slow-down in the delivery of equipment under the MAP program but with continued training activities.*

As for the Navy program, the Chief Navy Section MAAG has recommended to Defense, in view of the failure of the Dominican Republic to take the necessary steps to improve its Navy and make proper use of equipment furnished by the United States, that no matériel be supplied until satisfactory improvement is demonstrated and that the Navy program be limited to continued training. Our Embassy in Ciudad Trujillo has concurred but has recommended that the program be slowed to a possible halt and not be terminated abruptly.

In line with the recommendations of the Chief Navy Section MAAG and our Embassy, we might suggest to Defense that we would favor a slow-down in the delivery of equipment for the Dominican Republic Navy. We should indicate that it is politically undesirable to deliver ammunition to the Dominican Republic at this time and request that the items (1) 10,000 rounds of 40 mm. ammunition and (2) 3,000 rounds of 3' .50 caliber ammunition planned for the Navy be deleted from the program, as well as (3) 120–750 lb. general purpose bombs for the Air Force.

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[2] Not printed. (*Ibid.*, Central Files, 739.5–MSP/7–1057)

The delivery of the Navy guns, gun fire control systems, gun sights, depth charges and projectors for the Navy, as well as the practice rockets for the Air Force would be left to the discretion of Defense.

It should be noted that the Embassy has recommended delivery of the F80C's to the Dominican Republic, the timing of such delivery to be made with due regard for the political situation. It has also recommended approval of the FY 59 MAAG recommendations for the Air Force (not yet available to us) and has pointed out that the Air Force has made satisfactory progress toward meeting the MAP objectives.

While we have denied F80C aircraft to the Dominican Republic at this time for political reasons, we should be prepared to approve the sale of them when the political climate favors this. Defense considers that there is a military requirement for these aircraft in the eight MAP countries (including the Dominican Republic) for which they were approved. The Bureau of the Budget raised this question last autumn when Defense requested the release of funds for the planes. Funds were released only when Defense determined there was a military requirement for these aircraft for hemispheric security.

Recommendation:

We should inform Defense that we favor a slow-down in the delivery of Navy equipment for the Dominican Republic, recommended by our Embassy. We should indicate that we consider the delivery of ammunition (except the depth charges and practice bombs) to be politically undesirable at this time and request that the ammunition listed above be deleted from the program. We should be prepared to approve the sale of one squadron of thirteen F80C aircraft when the political climate warrants.

334. Memorandum From the Deputy Assistant Secretary of State for Inter-American Affairs (Snow) to the Secretary of State[1]

Washington, undated.

SUBJECT

Letters from the Mother of Gerald Lester Murphy and Congressman Charles O. Porter

Background:

Mrs. Lester G. Murphy has written to you (Tab B)[2] concerning the fate of her son, Gerald Lester Murphy, the young American pilot who disappeared in Ciudad Trujillo last December. As a result of extensive FBI investigations in this country, we strongly suspect he was done away with by Dominican Government agents because of his involvement on behalf of Dominican principals in the kidnapping of Jesus de Galindez in New York City in March 1956. Since Murphy's disappearance, his mother, apparently distraught and bewildered, has written numerous letters to the Department, as well as to the President. All have been answered on the office level.

Congressman Charles O. Porter (D., Ore.), in whose district Murphy's parents live, has proceeded from the protection aspects of the Murphy case to launch what has remained essentially, at least in Congress, a one-man campaign to end what he contends is official United States support of dictatorships in Latin America. After seeking without noticeable success to soften Mr. Porter's pugnacious attitude towards this Administration by a policy of conciliation, we have now decided, with H's concurrence, that we seem to have reached a point of diminishing returns in our efforts to be more than polite to the Congressman.

On July 26, 1957, Mr. Porter wrote to ask you for a fifteen-minute appointment, in order to discuss the Murphy case (Tab D). He also noted having received a copy of Mrs. Murphy's letter to you of July 23, 1957.

Recommendation:[3]

It is recommended that you sign the attached reply (Tab A) to Mrs. Murphy's letter of July 23, 1957, in order to show that the

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[1] Source: Department of State, Central Files, 239.1122–Murphy, Gerald Lester/8–957. Confidential.

[2] The attachments were not found with the source text or in Department of State files.

[3] Secretary Dulles initialed his approval of these recommendations on August 9.

Murphy case is being given personal attention at the highest levels in the Department. Such a letter with your signature not only may serve to reassure Mrs. Murphy; it may also reduce the family pressure on the Department and the White House.

It is also recommended that you approve the attached reply to Congressman Porter (Tab C) denying his request for an appointment with you and suggesting that he talk with me instead.

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335. Memorandum From the Deputy Director of the Office of Middle American Affairs (Stewart) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, September 23, 1957.

SUBJECT

Dominican Foreign Minister's talk with Secretary Dulles

Mr. Norman Armour, USUN, informed me of details of the conversation which the Secretary had with Foreign Minister Herrera Báez in New York last week. Herrera Báez discussed two topics with the Secretary. They are as follows:

1. Exequatur for Consul General Llaverias[2]

The Foreign Minister explained to the Secretary that the Dominicans had requested an exequatur for Llaverias last June but it was not forthcoming as yet. The Secretary replied that it was the first time he had heard of this matter but that he would look into it upon his return to Washington.

I had given Mr. Armour some background on the dual accreditation question which has ARA and L holding opposite views.[3] Mr.

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[1] Source: Department of State, Central Files, 739.00/9-2357. Confidential.

[2] The Dominican Government sought dual accreditation for Federico Llaverías as Consul General in New York City and as a permanent member of the Dominican Delegation to the United Nations.

[3] In a memorandum dated September 23 to Rubottom, Krieg discussed the views of his office and those of the Legal Adviser's Office on the question of dual accreditation of foreign officials in New York. According to the memorandum, the Office of the Legal Adviser held that "the functions and status of consular officers are essentially incompatible with the functions and status of permanent representatives to the United Nations entitled to privileges and immunities under the Headquarters Agreement between the U.S. and the United Nations." The Office of Inter-American Affairs did not agree with the position of the Legal Adviser's Office for several reasons, including the following: "1. There would appear to be no inherent inconsis-

Armour inquired whether it would be possible to explain informally to Foreign Minister Herrera Báez that the delay in granting the exequatur had no connection with the personality of Llaverias or was related to any other issues which involved the United States and the Dominican Republic. I told him that we had no objection to this course of action.

In the event the Secretary should inquire of you why the question of accreditation for Llaverias has been so long delayed, it might create an opportunity to review the dual accreditation issue briefly with him.

2. Visit of ICFTU Committee to Dominican Republic

The Foreign Minister stated that a committee of ICFTU was scheduled to visit the Dominican Republic to investigate working conditions there. He said that Luis Alberto Monge, Secretary General of ORIT, Latin American affiliate of ICFTU, apparently was either attempting to dissuade the World Labor Federation from sending the committee or was attempting to influence the ICFTU in the type of report its committee would make following the visit. The Secretary informed Herrera Báez that Tom Meany, President of AFL–CIO, was a member of the United States Delegation to the Twelfth General Assembly and suggested that the Dominican official talk directly with Mr. Meany. Herrera Báez accepted the suggestion and Mr. Armour is arranging an appointment for Herrera Báez with Meany later this week.

(Mr. Stephansky[4] said the ICFTU passed several resolutions at its last convention involving visits of investigation to various countries but he was not certain whether the Dominican Republic was included in the list. He will advise Serafino Romualdi, Latin American representative for AFL–CIO, of this development.)

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tency in such dual service. The United States accredits a large percentage of its diplomatic officers in a dual capacity.

"2. The designation of persons as members of delegations to international organizations is a matter which foreign governments regard as particularly within their own sphere, and they would resent interference by the United States which would prevent their using available personnel in the most effective way. Such resentment could lead to limitations on U.S. enjoyment of dual accreditation privileges." (Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic)

[4] Ben S. Stephansky of the Office of Inter-American Regional Political Affairs.

336. Letter From the Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Ambassador in the Dominican Republic (Farland)[1]

Washington, December 3, 1957.

DEAR JOE: Thank you for your letter of November 15, 1957[2] concerning Generalissimo Trujillo's assurances that the Dominican Republic would cooperate fully with us in our missile program. We are pleased to have these assurances.

Early in November when Fran Spalding visited the Department briefly, we received the impression from conversations with him that there is little activity at the Guided Missile Tracking Station in the Dominican Republic and that this lack of activity could give rise to the impression that that facility is virtually in mothballs. We have checked on this with the Pentagon which has informed us that the Air Force is very interested in the tracking station in the Dominican Republic and that it is a major link in the series of some 10 such stations. This is for your background information.

Sincerely yours,

R.R. Rubottom, Jr.[3]

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[1] Source: Department of State, Rubottom Files: Lot 59 D 573, Dominican Republic. Secret; Official–Informal. Joseph S. Farland was appointed Ambassador to the Dominican Republic on May 20 and presented his credentials August 7.

[2] Not printed. (*Ibid.*)

[3] Printed from a copy which bears this typed signature.

HAITI

POLITICAL AND ECONOMIC RELATIONS OF THE UNITED STATES AND HAITI[1]

337. Memorandum From the Director of the Office of Middle American Affairs (Newbegin) to the Assistant Secretary of State for Inter-American Affairs (Holland)[2]

Washington, January 5, 1955.

SUBJECT

Political Situation in Haiti—Rumors of Unrest

We have just received several despatches from Port-au-Prince reporting increasing rumors that the Magloire Administration is in danger of being overthrown unless it can settle its economic difficulties. The Embassy agrees that the economic situation is bad but does not as yet believe there is much danger of an actual coup d'état because of the loyalty of the military to President Magloire and the latter's effective spy system. The Embassy does believe, however, that there is danger of financial-economic disintegration which could end in the Government being unable to pay its bills and thus being unable to keep the Army under control.

Apparently these rumors concerning the stability of the Magloire Administration are related directly to the question of whether or not Magloire can obtain loans from the IBRD and Eximbank and grant aid from the United States. Persons discussing the political situation are frequently heard to say that President Magloire had better bring back funds from the United States or he might just as well not come back.

President Magloire seems to be aware of these rumors and one informant claims that the President intends to revive the struggle between blacks and mulattos in order to gain support from former Estimé leaders.[3]

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. IV, pp. 1240 ff.

[2] Source: Department of State, Central Files, 738.00/1–555. Confidential. Assistant Secretary Holland initialed his approval of this memorandum.

[3] Dumarsais Estimé, President of Haiti, 1946–1950.

Involved in the foregoing are the elections scheduled for January 9. While these elections (for 37 deputies) have not been considered very important because Government-picked candidates are expected to win handily, one candidacy has stirred up interest. Deputy Daniel Fignole, a rabble-rouser opposed to President Magloire, has stated publicly that the President is trying to rig the elections so that Fignole will be defeated. He has boasted, however, that if he is not elected President Magloire had better not go to the United States. The implied threat is that there will be uprising and that the President might be overthrown while he is away. Fignole is appealing to the masses and the rank and file of the Army. Ordinarily his boasts and talk would not be taken seriously but, given the other rumors and the economic situation, his threats should not be overlooked.

Comment:

The Embassy is not being alarmist but does point out that most observers, while their viewpoints are somewhat different, do agree on two things: (1) That the current economic situation is very bad; and (2) that there is much talk, and perhaps some planning, with respect to the possible overthrow of the present Administration.

We will probably arrive at some decision on the question of grant aid to Haiti within the next three weeks. Should the position of the Magloire regime deteriorate more rapidly than now contemplated, we perhaps should give consideration to the announcement of grant aid prior to the President's visit to the United States. This would not only have the advantage of possibly bolstering his regime but also might help prevent Magloire from raising embarrassing loan questions during his official visit.

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338. Editorial Note

President of Haiti Paul E. Magloire made a State visit to the United States, January 26–February 9, 1955. The text of his address to a Joint Session of Congress on January 27 is printed in *Congressional Record*, January 27, 1955, page 667. During Magloire's visit to Washington, Secretary Dulles and Haitian Foreign Minister Mauclair Zephirin signed on January 28 a bilateral Military Assistance Agreement, which entered into force on September 12, 1955. For

text, see 6 UST (pt. 3) 3847. Documentation on Magloire's trip is in Department of State, Central File 738.11.

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339. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Special Assistant to the Secretary of State for Mutual Security Affairs (Nolting)[1]

Washington, February 2, 1955.

SUBJECT

Additional Emergency Assistance for Haiti

Immediately following Hurricane Hazel which struck Haiti in October of last year the United States provided emergency aid amounting to $2 million worth of surplus agricultural commodities and $350,000 worth of seeds and light agricultural tools. Although there was some thought at that time that additional aid might be required, Haiti was not included in the 1955 budget presentation as a country in which an economic development program would be carried out because there was not sufficient data to indicate whether such additional aid was actually needed.

By December of 1954, however, the Department had received a request for additional aid from the President of Haiti and our Embassy and USOM Mission had reported that damage caused to the coffee crop by the floods which followed Hurricane Hazel was extensive. The Haitian budget was cut from approximately $28 million to $26 million. Haitian government workers took a 10% cut in salaries and it was estimated by the Haitians and by our missions that total receipts for the current fiscal year would probably be $8 to $9 million short of estimated expenditures. It was also estimated that from 20% to 40% of the coffee and cacao crops had been destroyed. This plus expected lower coffee prices would, of course, seriously curtail Haiti's principal source of income.

Secret conversations between the Ambassador and officials of the Haitian National Bank brought forth the fact that there was already an overdraft of $4,600,000 and that the Haitian economic situation was serious.

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[1] Source: Department of State, Central Files, 738.5–MSP/2–255. Confidential.

In addition, the Embassy reported increasing rumors of political unrest and predictions by well informed persons that unless President Magloire was able to obtain loans and grant in aid to bolster the country's economy, the situation would become so serious by April or May that it was doubtful the Magloire regime could survive. It was pointed out that the Army remains the key to Magloire's retention of power and although his support by the Army remains firm at the present time, it was doubtful how long Magloire could retain that support if the economic situation deteriorated to a point where it was not possible to meet salaries. Deterioration to this point was envisaged by these observers unless aid was forthcoming. Meanwhile, the Eximbank and the IBRD made separate surveys of the situation. In conversations with Department and FOA officers the Bank representatives have expressed the opinion that Haiti has a current loan capacity of between $10 and $12 million. The Eximbank is actively considering the granting of a loan of between $6 and $8 million for further development of the Artibonite Valley Project. Haiti currently has a $14 million Eximbank loan for this project but it is considered by the Bank that the project will need further financing in order to complete the important work already started. In connection with this loan, Eximbank officials have stated confidentially that they are considering declaring a moratorium of from one to four years on the present loan and any expansion thereof. The Bank also might be willing to consider a Haitian request for a power survey.

It is understood that the IBRD is considering the possibility of a loan for the establishment of a road maintenance program and some road construction. The Bank has not as yet reached a decision on this matter but undoubtedly any loan granted would be within the overall estimate of $10 to $12 million loan capacity and with regard for any loans made by the Eximbank.[2]

Officials of both Banks have expressed their belief that the reduced revenues of the Haitian Government and the damage caused to the coffee crop are so great that an emergency rehabilitation program is still needed over and above what the Banks might do in the fields they are currently considering. They point out that unless aid is given in rehabilitating Haiti's principal crop (coffee) the country's recovery would be so slow that its ability to make payments on loans which might be granted would be seriously jeopardized. The Banks feel that a program designed to rehabilitate the

[2] In May 1956, the IBRD made a loan of $2.6 million to the Haitian Government for a program of highway repair and maintenance. For further information, see *The World Bank Group in the Americas*, International Bank for Reconstruction and Development (Washington, June 1963).

coffee crop, i.e. plant shade trees, clear out debris, bring in new coffee plants, repair damaged irrigation ditches and feeder roads, etc., is most essential and clearly falls into the category of emergency relief designed to help Haiti at a time when its own finances are insufficient to carry out these projects which are so necessary if Haiti is to be able to carry on other necessary economic programs.

The Banks have indicated they would be most happy to see FOA extend the requested grant in aid because they feel it is necessary and because they feel the Banks' efforts must be confined to other fields.

In so far as the political picture is concerned the Embassy and the Department are of the opinion that the failure to receive adequate aid in the immediate future will leave Haiti in such a weakened economic situation that the stability of the Magloire regime will be threatened. In this respect it should be pointed out that the Haitians are aware that some consideration is being given to their request. They have been informed repeatedly that there are no funds allotted for such a program and that until data justifying the request was received, it would not be possible to present the case. President Magloire was informed that his recent visit to the United States was not the proper occasion to discuss either loans or grant in aid. Despite fears that the President would take up these matters, he adhered strictly to our advice and did not discuss them with officials here. It is probable that his failure to do so was partially the result of his conviction that Haiti would be given aid. The fact that the Haitian appetite has already been whetted is a factor which cannot be entirely ignored. Failure of the United States to aid Haiti at this time when she considers she has real need for aid would undoubtedly be reflected in the cordiality of relations between the two countries.

In view of the above background, I recommend that you forward the attached memorandum to Mr. Stassen[3] requesting that, because of the political and economic considerations involved, up to $750,000 be made available under Section 103 of the Mutual Security Act[4] for initiation of rehabilitation projects in Haiti. It should be pointed out that the initiation of such a program will undoubtedly call for additional grant aid in fiscal year 1956 to complete the project. While it will be necessary to obtain further data, now being prepared by the Embassy and USOM, before deciding on an exact amount for fiscal year 1956, present estimates are that such a

[3] Not printed. (Department of State, Central Files, 738.5–MSP/2–1655)

[4] For text of P.L. 665, the Mutual Security Act of 1954, enacted August 26, 1954, see 68 Stat. 832.

program would probably call for the expenditure of between $2½ and $3 million.

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340. Memorandum of a Conversation, Port-au-Prince, March 3, 1955[1]

SUBJECT

Conference Between President Magloire and Vice President Nixon

On March 3rd, following the formal presentation of the Cabinet to Vice President Nixon at the Palace, the President requested a conference with Vice President Nixon, with Assistant Secretary of State Holland, the American Ambassador, the Haitian Ambassador to the United States[2] and Mr. Robert Newbegin. M. Mauclair Zéphirin, Secretary of State for Foreign Relations, acted as interpreter.

1. The President expressed deep concern because the International Bank had indicated that the maximum loan it could make to Haiti would be in the sum of two million dollars. He stated that when representatives of the International Bank visited Haiti in November 1954, he was under the impression that the Bank would make a substantial loan to Haiti, which would at least cover the cost of constructing a highway from Port-au-Prince to Aux Cayes, at an estimated cost of seven million dollars.

2. The President indicated that he thought the negotiations for a loan from the Export-Import Bank for the Artibonite dam and irrigation project is proceeding satisfactorily, but he indicated that he hoped that their final decision could be announced at an early date.[3]

3. The President stated that while his Government appreciates the grant-in-aid of $750,000, from the FOA, he feels that the public and press, which had expected greater financial assistance would interpret efforts to obtain substantial financial assistance as a failure,

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[1] Source: Department of State, Central Files, 033.1100–NI/3–855. Confidential. Drafted by Davis on March 7. Transmitted in despatch 330 from Port-au-Prince, March 8. (*Ibid.*) Holland and Newbegin were in Haiti accompanying Vice President Nixon on a trip through 11 countries of Central America and the Caribbean, February 6–March 5. Documentation is *ibid.*, 033.1100–NI.

[2] Jacques Léger.

[3] Telegram 170 to Port-au-Prince, April 20, reported that the Export-Import Bank authorized a $7 million additional loan to Haiti for the flood control and irrigation project in the Artibonite River Valley. (Department of State, Central Files, 838.10/4–2055)

and that the reaction would be unfavorable, both to the Government of Haiti and to relations with the United States. He has urged that the announcement of the $750,000 grant be held up until a favorable announcement relative to other negotiations can be made.

The Vice President listened attentively and made some inquiries to clarify statements made by the President. He did not make any promises, but did state that he would discuss the matter of the International loan and the Export-Import loan with those agencies on his return to the United States.

The President discussed the program and activities of the FOA in Haiti. He stated that it had been most helpful in irrigation projects in the Aux Cayes area and that it had also been helpful in many other respects. He remarked, however, that he felt that the technicians, in some cases, had insisted on programs in which they, the technicians, were interested, rather than in programs in which the Haitian Government is interested. He, apparently, had in mind suggestions that had been made to use the grant of $750,000 for flood control projects in the Cul-de-Sac plain.[4] The Ambassador assured the President that the investigation relative to improvements in that section, were merely tentative and that this project would not be pressed in case the Haitian Government has other projects in which it is interested. The Vice President asked President Magloire if he thought that the FOA program would operate better if it were transferred to the State Department, thus giving the Ambassador the control over the situation. The President replied that while he realized that the American Ambassador is not a technician, that he should be in a position to tell the technicians what they should and should not do. In concluding the conference, the President expressed the wish that a grant-in-aid could be made to Haiti to assist it in its economic rehabilitation made necessary by the Hurricane Hazel.

During the course of the conference, the President stated that there had been some criticism, because his Government had authorized the construction of a road to Petionville from Port-au-Prince and some other small road programs. He stated that he thought these projects were worthwhile and that the work on these roads gives employment to laborers during a period when there is a great deal of unemployment.

Roy Tasco Davis[5]

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[4] A handwritten notation at this point in the source text reads: "The President's complaint was *not* about specific projects but about the areas in which FOA proposed to carry them out. Roy."

[5] Printed from a copy which bears this typed signature.

341. Memorandum of a Conversation, Port-au-Prince, March 4, 1955[1]

SUBJECT

1) Electric Power Problem in Haiti
2) Haitian Application for Loans to IBRD and Eximbank
3) Coffee Situation

PARTICIPANTS

President Magloire of Haiti
ARA—Mr. Holland
MID—Mr. Newbegin

Mr. Holland opened the conversation by stating he understood there was a problem in connection with the electric power company (Compagnie d'Eclairàge Electrique des Villes de Port-au-Prince et du Cap Haitien). He inquired whether President Magloire would rather have him recite his understanding of the problem and fill in Mr. Holland as he went along, or whether he would care to review it himself. The President replied that he would prefer to hear from Mr. Holland first.

Mr. Holland emphasized that he had not spoken with anyone in the company and that he was bringing up the problem only because the President's views would be very helpful to him on his return in discussing Haitian loan applications pending with the Eximbank and the IBRD. Mr. Holland said that he knew that certain questions would be asked him by officials of the banks and that certainly the situation of the power company would be among them. He asserted that according to his information the company's contract would expire in seventeen years at which time the plant and equipment would revert to the Haitian Government. He said that under present circumstances it was his understanding that the company was unable to supply the amount of power needed unless it provided additional investment for equipment. President Magloire replied that the above was correct.

Mr. Holland continued, saying that it was also his understanding that it was not the policy of the Haitian Government to require the company to invest further unless (1) it could amortize its investment within the period of the contract, (2) recoup its investment, and (3) provide at the same time a reasonable profit for its stockholders. Mr. Holland stated that he wanted these points clarified because he knew that whatever the policy of the Haitian Government was it would have an influence on the thinking of the

[1] Source: Department of State, Central Files, 838.2614/3–455. Confidential. Drafted by Newbegin.

Eximbank and the IBRD officials. He pointed out that he wanted to make it very clear that a policy toward the company along the lines indicated would in no way be a "condition" to favorable action on the part of the banks. The President's response was that the policy of the Haitian Government was definitely that indicated by Mr. Holland.

The President asserted that the difficulty with the company was that it would not make any new investment or expand unless the contract itself was extended beyond the seventeen-year period. He stated emphatically that this was one thing which his Government would not do. The validity of the contract had already been extended once as a result of what he indicated were bribes which reflected no credit on the company. His Government would have nothing to do with any further extension. He said the Government had been very considerate in its attitude toward the company. The latter had not met a number of the terms of the contract and the Government was accordingly in a position where it could have cancelled the contract at any time. This it had not done. Not only was it not the policy of his Government to require the company to do any of the three things mentioned by Mr. Holland, but it had actually made a proposal to the company that it administer the projected hydroelectric plant at Artibonite. He indicated that notwithstanding the above the Haitian Government was not getting anywhere with the company. He then mentioned that a group (he could not mention the specific names of the people involved) was now in negotiation with the company in an effort to buy it out. The company, however, was asking approximately $4 million whereas the group which proposed to purchase it felt that the antiquated plant and equipment was worth only something between $1 million and $1.5 million. Mr. Holland inquired what administrative agency of the Government was charged with price fixing. The President indicated that this was the Department of National Economy (?). Mr. Holland pointed out that this Department should be in a position to set a fair price which would permit the company to expand its operations, recoup its investment and make a reasonable profit for the shareholders. The President pointed out that he was not familiar with all the details of the situation and that Mr. Holland should talk further on the subject with Finance Minister Jumelle.[2]

Mr. Holland then reviewed briefly with the President the coffee situation, expressing the hope that some means might be found of stabilizing the price of coffee. He mentioned that coffee was a commodity which enjoyed an enviable position vis-à-vis certain other commodities inasmuch as there was no domestic production in

[2] Clément Jumelle, Secretary of State for Finance and National Economy.

the United States, that consumption remained relatively stable and, notwithstanding the tremendous increase in coffee prices last year, domestic consumption had not fallen proportionately, but only approximately 12 percent. He pointed out that adequate prices for coffee could be assured, were there to be an increase in consumption. He felt that the coffee-producing countries should get together and conduct an advertising campaign with this in view. The only advertising in the United States by the coffee interests was that designed to push a given brand rather than to increase overall consumption. Mr. Holland declared further that the State of Tennessee alone spent ten times more money on advertising its tourist attractions than did all the coffee-producing countries combined in any effort to promote coffee consumption.

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342. Memorandum From the Assistant Secretary of State for Inter-American Affairs (Holland) to the Acting Secretary of State[1]

Washington, October 29, 1955.

SUBJECT

Financing of Haitian Artibonite Project

Problem:

Additional financing of about $7,500,000 is needed by the end of the year to complete the Artibonite dam and irrigation project in Haiti. The Eximbank is proposing that a direct grant of $5 million be made to Haiti from ICA, or other U.S. source, to complete the project (Tab A). The need for additional funds has been caused, at least in part, by the miscalculations and delays of the American engineering firm supervising the project. It is essential that the project be finished. The Haitian Government claims it cannot, for political reasons, approach the Haitian Congress to request approval of another bank loan.

Reasons for U.S. to Make Grant:

1. The delays and miscalculations of the American engineering firm are largely responsible for the additional costs.

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[1] Source: Department of State, Central Files, 838.10/10–2655. Confidential.

2. We have already had one other unfortunate loan experience in Haiti (SHADA). During World War II we induced Haiti to obtain a $5 million loan for a joint program principally involving cryptostegia rubber as well as sisal and lumbering. The cryptostegia program was a failure and the overall benefit accruing to Haiti from SHADA has in no way measured up to the financial investment which we induced her to make. The Haitians have claimed that the failures were due to errors and miscalculations on the part of the American managers and that the loan was really for the prosecution of the war effort rather than for Haiti's agricultural development. The Haitians have formally asked us to cancel this indebtedness.

3. Because of 1 and 2, with the resulting criticism and distrust of American methods and techniques, our relations with Haiti could be adversely affected.

4. As a result of Hurricane Hazel, the ensuing drought, and depressed coffee prices, Haiti is going through a period of serious financial difficulties.

5. Other projects which are needed for Haiti's economic development cannot be undertaken if all its credit is utilized for the Artibonite project.

6. The prestige of the Eximbank will be impaired if it becomes known that it is supporting an additional loan for a project on which engineers, approved by the Bank, made miscalculations amounting to approximately $7 million.

7. Approval of the Haitian Legislature is necessary to obtain another loan. Funds will run out by the end of this year, and the Haitian Congress is not scheduled to meet until April 1956.

8. The Magloire regime claims that it would be politically dangerous to ask Congress for an additional loan.

Reasons for Not Making Grant:

1. We should not establish a precedent of "bailing out" a country because of mistakes made by U.S. firms. This could easily have a chain reaction in Latin America.

2. We just authorized last week an emergency grant to Haiti of $3 million to repair damage done by Hurricane Hazel and the drought. This brings the total grant aid given to Haiti since the hurricane to approximately $7 million, which ARA considers sufficient to rectify that emergency situation.

3. Last year when the last loan extension on the Artibonite of $7 million was being considered, the Eximbank and the IBRD estimated that Haiti's loan capacity was between $10–12 million, which, if correct, would leave from $3 to $5 million still unused.

4. Increased coffee production makes it appear that Haiti's economic situation will improve considerably this year. Estimates are

that there will be about 375,000 bags exportable surplus as against only 225,000 bags last year.

5. ARA does not believe that a request for an additional loan would cause the overthrow of the Haitian Government. President Magloire has just recently assured our Ambassador that he is in full control of the situation and that the Army is completely loyal to him.

6. The Legislature will do as it is told, and could be called into special session to approve a loan request.

7. All fault for the present situation does not lie with the American engineering firm. The Haitians are partly responsible. Failure to complete land clearing, disputes within the Haitian ODVA, incompetence, etc., have also contributed to the situation.

Recommendation:

In lieu of making a special grant for this purpose, the following alternatives are suggested:

1. Shift the maximum part of the present $3 million emergency grant to the Artibonite, and let Haiti borrow for projects this leaves uncovered.

2. Forgive all or part of the SHADA balance (that is the same as a grant).

3. Refinance existing debts on longer terms to reduce payments.

4. Let Haiti borrow the balance to complete the project.[2]

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[2] Hoover initialed his approval of these recommendations on October 31.

343. Memorandum of a Conversation, Department of State, Washington, October 31, 1955[1]

SUBJECT

Financing of the Artibonite Dam and Irrigation Project in Haiti

PARTICIPANTS

Mr. Hoover, Acting Secretary of State
Mr. Waugh, President of the Export-Import Bank
Mr. Brand, Director of the Export-Import Bank
Mr. Prochnow, Deputy Under Secretary for Economic Affairs
Mr. Holland, Assistant Secretary for Inter-American Affairs
Mr. Hill, Special Assistant for Mutual Security Affairs
Mr. Kalijarvi, Deputy Assistant Secretary for Economic Affairs
Mr. Hoyt, Officer in Charge, Caribbean Affairs

Mr. Waugh said this was one of several problems which the Eximbank would want to discuss with the Department, because of the fact that broad economic and political policies, as well as Bank financing, were involved.

Mr. Brand explained that funds for the Artibonite project in Haiti would run out sometime in December, and that the Bank estimated that additional funds amounting to $7,500,000 will be needed to complete the project. He pointed out that the Haitians feel it will be politically difficult to ask the Haitian Congress to approve a request for an additional loan, particularly since the Haitians believe the United States engineering firm is to blame for the additional costs. Haiti's economic and financial difficulties arising from the hurricane and depressed coffee prices were discussed. Mr. Brand explained that because of these considerations the Eximbank was asking State's advice and was making the suggestion that a grant be authorized.

Mr. Hoover felt that an outright grant for the Artibonite was probably not feasible, but suggested that the Bank look into the possibility of forgiving Haiti the remaining indebtedness on the SHADA loan (approximately $3.6 million) as one possible relief measure. Mr. Holland emphasized that this would be politically important to the Haitian Government in that President Magloire, while asking for a loan to complete the Artibonite, could point to the elimination of the SHADA loan as a political achievement of his Government, thus softening the Artibonite loan request.[2]

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[1] Source: Department of State, Central Files, 838.2614/10–3155. Confidential. Drafted by Hoyt.

[2] Telegram 49 to Port-au-Prince, December 9, reported that the Export-Import Bank Board had authorized refunding of the credit for the Artibonite project and increased the credit by $6 million to $27 million. (*Ibid.*, 838.2614/12–955)

Mr. Hoover also suggested that there be investigated the possibility of using P.L. 480[3] funds to purchase as much wheat flour as possible for shipment to Haiti, thus releasing the $1.5—1.8 million of the emergency assistance of $3 million currently granted to Haiti. It was thought that possibly by using P.L. 480 Haiti would be able to sell the flour to regular importers and thus obtain cash which could be used for the Artibonite, thus diminishing the total amount of the loan needed.

A further suggested step was the re-financing of the present loans to Haiti, totaling $21 million, on a longer term basis and reducing the interest on such loans to 3½%. In this connection Mr. Kalijarvi said that the E area felt the re-financing of the present loans was a distinct possibility but that E questioned the advisability of helping countries to finance projects just because American firms had been the cause of the increased cost. He said E felt this was "conscience money" and that if we adopted such a policy it could provoke a chain reaction which could spread to other countries. Mr. Kalijarvi also pointed out that any change in the development assistance program would probably involve explanations to Congress since we had presented our budget for emergency aid on specific bases.

Mr. Hoover instructed the Bank representatives and the Department officers concerned to work out the details of the transaction. He felt that we should help Haiti in this situation and that the various plans suggested offered a basis for finding a solution to the problem.

It was pointed out that the advanced stage of negotiations for the projects which would be undertaken under the $3 million grant aid made it necessary to move quickly on this matter if the proposal concerned the use of P.L. 480 funds for the wheat flour is to be achieved.

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[3] For text of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, see 68 Stat. 454.

344. Memorandum of a Conversation, American Embassy Residence, Panamá City, July 23, 1956[1]

PRESENT

The President	President Magloire
The Secretary of State	Foreign Minister Charles
Asst. Secy. Holland	
Dr. Milton Eisenhower	
Mr. Neal	
Lt. Col. Walters	

President Magloire opened the conversation by saying how delighted he was to see the President looking so well and vigorous, so much so that he was able to sit through yesterday afternoon's speeches.

President Magloire said that he wanted to express his gratitude to the President and to the Secretary for their understanding and the assistance that had been rendered to Haiti by the United States. He had recently seen Mr. Krenk in Port au Prince and had heard the good news that another million dollars was going to be made available to Haiti but this was tempered by the bad news that this was to be the last such contribution as it was felt that the state of emergency no longer existed.[2] President Magloire added humorously that the state of emergency no longer existed but unfortunately their problems still faced them whole and entire. He said that all Haiti wished to do was to increase her production and to be able to sell these products on the United States market at reasonable prices. This related particularly to coffee, cocoa and sisal.

President Magloire said that they had been disappointed in the Artibonite Valley project. The American company that had come in on the recommendation of the U.S. Government had calculated the cost of the project at about eighteen million dollars and now the cost would run up to around thirty-two million dollars. They would not be able to meet this amount and unfortunately, under these conditions they would be unable to obtain the electric power station which was the consideration that had made the whole project worth

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[1] Source: Department of State, Conference Files: Lot 62 D 181, Panama Chronology. Secret. No drafting information appears on the source text, but a handwritten notation indicates that the memorandum was approved for distribution by Andrew J. Goodpaster, the President's Staff Secretary. President Eisenhower and his party were in Panamá to attend the meeting of the Presidents of the American Republics, July 21–22. For documentation, see Documents 109 ff.

[2] Telegram 138 to Port-au-Prince, June 27, authorized Ambassador Davis to inform the Haitian Government that $1 million in additional emergency grant aid was being made available to it from fiscal year 1956 funds. Davis was also to inform the Haitians that no development assistance would be requested or considered for fiscal year 1957. (Department of State, Central Files, 838.00-TA/6-2756)

while. President Eisenhower then asked if there had been a great increase in labor and material costs. President Magloire said that the increase derived principally from the cost of the machinery to be imported from the United States as the increase in local labor costs had been very small. The President said that he would have the matter looked into as he did not like inefficiency where he or his friends were concerned. President Magloire said that he felt the error arose as a result of mistaken calculations on the part of the NA-PENSEMAT (?) corporation that had made the study. The actual work was being carried out by the Brown and Roots Company. The President again said that he would have the matter looked into.

President Magloire thanked him and said that Mrs. Magloire joined him in sending their respects to Mrs. Eisenhower as they both recalled the warm and friendly welcome that she had given them when they went to the White House on the occasion of their visit to the United States.

President Eisenhower thanked him and said that the photographers would like to take pictures if President Magloire had no objection. The Haitian President replied that he would be delighted. He then took leave of the President.

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345. Memorandum of a Conversation, Department of State, Washington, December 3, 1956[1]

SUBJECT

President Magloire Planning Step Down

PARTICIPANTS

Mr. Rubottom, ARA
Ambassador Zephirin, Cuban [*Haitian*] Embassy
Mr. Fromer, MID

Ambassador Zephirin said he had just returned from a quick trip to Haiti, where he had been called by President Magloire. The Ambassador said he had very grave news, which consisted of the following:

Haiti is facing a severe economic crisis, arising out of (1) economic consequences of Hurricane Hazel, especially damage to

[1] Source: Department of State, Central Files, 738.11/12–356. Confidential. Drafted by Fromer.

coffee trees which prevented successful implementation of the government's five-year plan to double coffee production and exports; (2) this year's short coffee crop, 60% of normal; (3) France's unfavorable financial situation growing out of the Suez fiasco, which has caused a slow-down in usual French purchases of Haitian coffee in November–December, with a consequent shortage of income to Haiti; (4) drought in the North and floods in the South, with a shortage of food and higher food prices.

Already, the Banco Popular Colombiano in Port-au-Prince has been forced to close its doors. The National Bank, while strapped for excess funds for credit purposes, does have enough to meet any run which may develop.

As a consequence of all this, the Haitian government must take severe austerity measures in the economic and financial fields such as reduction of payrolls and salaries, closing of some diplomatic and consular posts, etcetera. President Magloire prefers not to face up to the strong critical reaction which is certain to follow such unpopular steps and he is planning to step down from the Presidency. Under the Constitution he should be replaced by the President of the Court of Appeals.[2] However, the Presiding Justice doesn't want to take on such an unpleasant task. His deputy also has declined the Presidency. It appears that the only way out will be the creation of a military junta, to be composed of General Levelt,[3] Colonel Prosper[4] and a third Army officer still being sought.

Such a junta could run the country until the worst of the crisis passes in the next few months and the Presidential elections are held in April as scheduled. However, it would be necessary to postpone the Senatorial elections scheduled for January. The President might announce his decision on December 6.

Mr. Rubottom expressed regret at the Ambassador's report, especially the news of Haiti's economic straits. Since it was U.S. policy not to intervene in the affairs of other countries, the U.S. Government had no official views on President Magloire's reported decision. But speaking personally, Mr. Rubottom opined that the President might have taken the course of calling in the military leaders and deciding on a program of austerity in government. At the same time he could appeal to the opposition leaders for their cooperation in the name of national unity, at the same time guaranteeing free elections, and maintenance of public order. This way the President could finish out his term until his successor took office. Ambassador Zephirin interjected that the opposition was circulating

[2] Joseph Nemours Pierre-Louis.
[3] Antoine Levelt, Chief of Staff of the Haitian Army.
[4] Marcaisse Prosper, Haitian Chief of Police.

the opinion of a French constitutional lawyer that President Magloire's term should end December 6, 1956.

Mr. Rubottom went on to assure the Ambassador that U.S. plans to send emergency food shipments to Haiti were well advanced. The Ambassador said it was most important to get food to Haiti quickly, possibly before Christmas. The need for seeds, to take advantage of recent rains, was also stressed.

Mr. Rubottom asked to be kept informed of developments in Haiti. The Ambassador said he would be in touch with authorities in Haiti by telephone and would keep us informed. He might have some word for us on December 5.[5]

[5] The substance of this conversation between Rubottom and Zéphirin was transmitted to the Embassy in Port-au-Prince in telegram 77, December 3. (Department of State, Central Files, 738.00/12–356)

346. Editorial Note

On December 5 President Magloire told Ambassador Davis that he planned to resign and assume control of the government as Commander in Chief of the Haitian Armed Forces. In telegram 127 from Port-au-Prince, December 6, the Ambassador reported that he told Magloire that it was better for him to remain in power as the legally-elected President rather than as Commander of the Army. (Department of State, Central Files, 738.00/12–656) On December 6 Magloire resigned the Presidency and became Commander in Chief of the Armed Forces and Minister of the Executive Power. In response to an inquiry from the Department (telegram 79 to Port-au-Prince, December 6; *ibid.*), Ambassador Davis stated that the Embassy believed that recognition of the new regime should be withheld until the situation was clarified. (Telegram 130 from Port-au-Prince, December 8; *ibid.*, 738.00/12–856)

In the Secretary's staff meeting on December 11, Rubottom reported that Murphy approved instructing Ambassador Davis to return to Washington for consultation. Rubottom further stated "that Magloire will have to step aside before a solution to this present crisis can be found. He indicated that the Department's position would be to hold back any aid funds for the Haitians until the situation is clarified." (*Ibid.*, Secretary's Staff Meetings: Lot 63 D 75) Ambassador Davis left Haiti on December 13.

347. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, December 17, 1956.

SUBJECT

Developments in Haiti

The following summary of recent events is for your information.

President Paul Magloire of Haiti resigned the Presidency on December 6 after 6 years in office. A temporary article in the Constitution which extended his term to May 21, 1957 had aroused criticism by his opponents. To silence these critics he went through the motions of abiding by the Constitution by seeking to turn executive power over to the members of the Supreme Court, but ended up still in control as commander-in-chief of the army.

Magloire then jailed the opposition leaders and dissolved the National Assembly. This ruse to retain power met with widespread passive resistance that turned into a general strike. By December 12 the apparatus of government was completely paralyzed; Magloire gave up and the Chief Justice of the Supreme Court, Joseph Nemours Pierre-Louis, became provisional president. Next day, Magloire flew to Jamaica. Pierre-Louis has organized a coalition caretaker cabinet and has promised presidential elections by next April. The new government appears to meet our standards for recognition. We expect to recommend to you later this week recognition of the new government.[2]

In his difficult moments, Magloire accused Americans in Haiti of abetting the strike movement, labelling this "interference in Haitian affairs".[3] This unwarranted accusation, which the Department has publicly denied, was based on the fact that some Haitian

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[1] Source: Department of State, Central Files, 738.00/12–1756. Confidential.

[2] In a memorandum of December 20, Rubottom recommended that Secretary Dulles sign a memorandum to the President authorizing the Department of State to extend recognition to the Pierre-Louis government. A handwritten notation on this memorandum indicates that Dulles signed and forwarded Holland's recommendation to Eisenhower on December 20. (*Ibid.*, 738.00/12–2056) The President initialed his approval on December 21. (*Ibid.*, 738.02/12–2156) In telegram 91 to Port-au-Prince, December 21, the Department transmitted the text of a statement of recognition of the Pierre-Louis government. (*Ibid.*) Chargé J. Paul Barringer transmitted this message to Haitian Foreign Minister Jean Price-Mars on December 24.

[3] In a conversation on December 10, Ambassador Zéphirin told Fromer that American intervention in Haiti "took the form of abstention from work on the part of Haitian employees of certain American firms which was condoned by the American Manufacturers." (Memorandum of conversation, by Fromer; *ibid.*, 738.00/12–1056)

personnel of ICA and ICA-financed projects, and of some American firms, stayed home during the strike.

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348. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Secretary of State[1]

Washington, February 15, 1957.

SUBJECT

Recognition of New Government of Haiti

Background:

In a note dated February 8, 1957, the Foreign Office of Haiti informed our Embassy in Port-au-Prince that on February 7 the National Assembly elected Franck Sylvain as Provisional President to fill the vacancy created by the resignation of Provisional President Joseph Nemours Pierre-Louis.[2]

A widely held interpretation of the constitutional presidential succession (Article 81) was that in case of a vacancy the executive power was automatically vested in the senior judge of the Court of Cassation. Although the action by the National Assembly was not in accordance with constitutional procedures, which are difficult to apply in view of the political crisis through which Haiti is passing after the overthrow of President Paul Magloire last December, the election of Mr. Sylvain was carried out in a peaceful manner and the results were tacitly accepted by the leading political figures.

Mr. Sylvain has formed a cabinet in which there are no known Communist sympathizers. The new government is believed to be generally friendly to the United States, and it has indicated that it will respect its international obligations. Furthermore, it appears able to maintain internal order and it enjoys the acquiescense of the majority of the people.

In electing Mr. Sylvain the National Assembly gave him a mandate to hold free elections as soon as possible in order that a constitutional president may be inaugurated on May 15, 1957.

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[1] Source: Department of State, Central Files, 738.02/2–1557. Confidential.

[2] President Pierre-Louis resigned on February 4. Documentation on this subject is *ibid.*, 738.00.

Recommendation:

That you sign the attached memorandum to the President, and authorize us to extend recognition not later than Wednesday, February 20, 1957.[3]

[3] Not printed. After receiving the approval of Secretary Dulles and the President, the note extending recognition to the Sylvain government was delivered to the Foreign Ministry by Ambassador Davis on February 21.

349. Memorandum From the Acting Secretary of State to the President[1]

Washington, May 2, 1957.

SUBJECT

Recognition of the New Government of Haiti

On April 5, 1957, an Executive Council of Government, composed of eleven Secretaries of State and two Under-Secretaries, was formed to succeed Provisional President Franck Sylvain, who resigned on April 2. This action in setting up a collegial form of executive power was carried out in a peaceful manner with the direct participation and approval of virtually all the political leaders who are candidates for the Presidency.

The Foreign Office has addressed a note to our Embassy in Port-au-Prince stating that the new government has the support of the nation and will maintain internal order. With respect to Haiti's readiness to honor its international obligations, we have asked the Executive Council for a more specific assurance, which we expect shortly. The Executive Council has called for free elections on June 16, 1957, and is due to dissolve on July 5, when the new President is inaugurated.

I believe that the statements made by the new government are essentially correct, and furthermore, that it is friendly toward the United States.

[1] Source: Eisenhower Library, Herter Papers, Chronological File. In a memorandum to Herter, May 1, Rubottom recommended that the Acting Secretary sign this memorandum to the President. (*Ibid.*)

We have been without an Ambassador in Port-au-Prince since the departure of the Honorable Roy Tasco Davis in mid-March.[2] Because of the extreme delicacy of the present situation in Haiti, we consider it in the United States national interest to get our new Ambassador, the Honorable Gerald A. Drew, accredited and in residence as soon as possible, i.e. as soon as the assurance regarding international obligations is received, even if this means recognizing the Executive Council while its existence is menaced by minority political elements now agitating for its replacement by a military junta.

I recommend that you authorize me to take the necessary steps to extend recognition to the new Government of Haiti.[3]

Christian A. Herter[4]

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[2] Ambassador Davis relinquished charge of the Embassy in Port-au-Prince on March 9.

[3] Despatch 546 from Port-au-Prince, May 7, states that Chargé Barringer delivered on that day a note which extended recognition to the Executive Council of Government, to Stuart Cambronne, Secretary of State for External Relations ad interim. Gerald A. Drew presented his credentials as Ambassador on May 15.

[4] Printed from a copy which bears this typed signature.

350. Memorandum From the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom) to the Under Secretary of State (Herter)[1]

Washington, May 15, 1957.

SUBJECT

Financial Assistance to Government of Haiti[2]

Since the downfall of President Magloire in December 1956, there has been a rapid political, financial, and economic deterioration in Haiti. There have been two provisional Presidents since Magloire and at the present time a council made up of representatives of the various presidential candidates is acting as the executive authority. On May 7, we recognized this Government and our new Ambassador is now in residence. Minority elements are now seeking to replace the Executive Council by a military junta. Therefore, although general elections are now scheduled for June 16, any further change of executives could result in postponing the date.

The Haitian Government is virtually without financial resources and is unable to borrow further from the National Bank to cover its operating expenses because its account is heavily overdrawn. The U.S. dollar reserves are down to $6 million, the lowest level in many years, and are being drawn down at the rate of $1 million a month. The current coffee crop, the major export item, was bad, sisal exports have slowed down, and the tourist trade continues adversely affected by the political unrest. Haiti owes the ExImBank about $30 million and defaulted on amortization payments in March.

During FY 57, Haiti is receiving $1.3 million under the Mutual Security Program as grant aid from previous year's appropriations. This, plus export and tourist earnings and foreign exchange reserves is not enough to carry Haiti to June 30. The "dead season" has already started in which there are low coffee and tourist earnings. An additional $1 million in U.S. dollar grant aid will be needed from

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[1] Source: Department of State, Central Files, 838.10/5–1557. Secret.

[2] In a memorandum of May 14 Rubottom informed Ambassador Drew of discussions between the Department of State, the International Monetary Fund, the International Cooperation Administration, and other governmental agencies on financial assistance to Haiti. The memorandum states in part: "I think it accurate to summarize our basic attitude as follows: 1) We want to restore Haitian financial stability. 2) We want to see the Haitian economy dynamic instead of stagnant, and we hope for rising living standard achieved through greater productivity of the working force. 3) We don't think these objectives can be achieved without U.S. and international aid, and increased private investment. 4) We don't think additional aid will be wisely utilized unless international and U.S. influence is exercised at certain key points." (*Ibid.*, Rubottom Files: Lot 59 D 573, Haiti)

this FY's funds to maintain essential imports and to prevent a collapse of the National Bank and the economy during the next two months. When recourse to such aid is found necessary, it is contemplated that it will be disbursed in small increments to ensure its use is limited to the barest interim essentials. The U.S. Executive Director of the IMF agrees that $1 million in additional aid is needed as a stop-gap for the next eight weeks until a new President takes office and a stabilization program agreed upon.

For FY 58 a stabilization program is being worked out with the International Monetary Fund which is expected to be supported with $4 million of U.S. emergency grant aid and up to a $7.5 million drawing from IMF. It is anticipated that such a program would be predicated upon the institution of adequate fiscal controls and the appointment of a U.S. citizen acceptable to the U.S. to assist in supervising the stabilization program. Haiti received actual grant aid of $1 million in FY 54, $1.6 million in FY 55, $3.2 million in FY 56, plus emergency assistance under PL 480, Title II of $2.7 million in FY 55 and $1.5 million in FY 57.

Recommendation

It is recommended that you sign the attached memorandum requesting Mr. Hollister, Director ICA, to allocate and commit for Haiti an additional $1 million for FY 1957.[3]

[3] A handwritten notation on the source text indicates that the memorandum to Hollister was signed by Herter on May 16. (*Ibid.*, Central Files, 738.5–MSP/5–1657)

351. Editorial Note

On May 21, General Leon Cantave, Haitian Army Chief of Staff, issued a proclamation dissolving the Executive Council and announcing that the Army had assumed control of the government. Daniel Fignole, a former Army Chief of Staff, was sworn in as Provisional President on May 26. At the 325th meeting of the National Security Council on May 27, Director of Central Intelligence Allen Dulles discussed the situation in Haiti. (Eisenhower Library, Whitman File, NSC Records)

Fignole was forced into exile by an Army coup on June 14. A Military Council of Government, headed by the new Army Chief of

Staff Antonio Kebreau, was formed. Documentation on these events is in Department of State, Central Files 738.00 and 738.02.

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352. Minutes of the Secretary's Staff Meeting, Department of State, Washington, July 3, 1957[1]

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9. *Haiti*—Mr. Snow said that Haiti is still politically unstable and noted we have recognized four different regimes in the last few weeks. Ambassador Drew has recommended that we put off until July 12 a decision on recognition of the current three-man Junta of disparate unknowns.[2] The IMF moreover is considering what, if anything, can be done to stabilize Haiti's deteriorating balance of payments situation; a $5 million fund may be needed, but until the aid appropriations are passed the Department cannot comment concretely. The Secretary wondered whether we should continue recognizing unstable Haitian governments and wished the question of recognition of the current Junta thoroughly thought through; he was inclined to think we should not, in the absence of strong affirmative reasons, extend recognition until they show some evidence of stability. Mr. Snow noted that this time, unlike the recent occasions, the other Latin American Republics seem to be awaiting our action before deciding their own course.

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[1] Source: Department of State, Secretary's Staff Meetings: Lot 63 D 75. Secret. Extract.

[2] The members of the Junta were General Antonio Kebreau, Colonel Adrien Valville, and Colonel Emile Zamor.

353. Memorandum From the Acting Director of the Office of Inter-American Regional Political Affairs (Dreier) to the Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, July 9, 1957.

SUBJECT

Recognition of Haiti

I believe we are drifting into an unnecessarily difficult situation regarding the recognition of Haiti. The general tenor of Ambassador Drew's telegram no. 6 of July 8[2] indicates that the Embassy is tending to judge the matter of recognition more on the basis of the future capabilities and performance of the government rather than whether it meets classical requirements of de facto control and willingness to abide by its international agreements.

In judging this question, there seem to be two basic aspects to consider: a) our obligations under inter-American agreements; and b) our national interest.

The basic inter-American agreement on this matter is Resolution XXXV of the Bogotá Conference[3] which states as its main proposition that the maintenance of diplomatic relations among the American republics is desirable. It then goes on to state that such relations imply no judgment on the internal policies of a government, and that the establishment thereof should not be used to extort any special advantages. The resolution itself, and the background of it, both indicate that the basic policy incorporated therein is one of de-emphasizing the significance of recognition as opposed to the importance of maintaining relations among the members of the inter-American community. While this policy does not in any sense deprive any government of its sovereign right to extend or withhold recognition of another government, it does in a sense put the burden of proof on the government as to why it does not recognize another government which meets the two classical criteria mentioned above.

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[1] Source: Department of State, Central Files, 738.02/7–957. Confidential.

[2] In telegram 6, Drew reported in part, "Have reluctantly reached conclusion tentative target date July 12 for recognition no longer realistic and am even beginning doubt Junta has sufficient internal strength and cohesiveness survive long enough hold elections." Drew recommended that the Department make no decision on recognition for the time being. (*Ibid.*, 738.02/7–857)

[3] The Ninth International Conference of American States was held at Bogotá, Colombia, March 30–May 2, 1948. For documentation on U.S. participation in the conference, see *Foreign Relations*, 1948, vol. IX, pp. 1 ff. The Charter of the Organization of American States was signed at Bogotá on April 30, 1948. For text, see 2 UST (pt. 2) 2394.

In the light of Resolution XXXV, it is my view that the time has come when we should proceed to recognize the existing government of Haiti.

Viewed from the point of view of national interest, there would seem to be no significant reason for departing from the above conclusion. It is in our interest to have a stable government in Haiti. While we cannot be sure that the Kebreau Government will continue in power, the only effect of recognition would be to make that more likely. There seems to be no other group capable of taking over and exercising authority more effectively, and it may well be that the fall of the Kebreau Government would produce the real chaos which we have feared.

There remains the question of whether the holding of elections should be made an implicit condition of our recognition. In my view, it is not in our interest to do so because this would involve intervention in Haitian affairs, involve a responsibility for the United States which we could not exercise because we could not in any sense guarantee the nature of the elections, and is unrealistic in the present chaotic state of Haitian politics.

I recommend that we consult with other governments that have not recognized, express the view that since the Kebreau Government has stayed in power for some time we are inclined to recognize it, "taking into account" (*not* "in accordance with") Resolution XXXV of the Bogotá Conference and then proceed to do so. The longer we delay, the more importance there is attached to our action or inaction, and the further we drift away from the policy adopted at Bogotá, and the greater our responsibility in the eyes of others for what takes place in the future.

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354. Telegram From the Secretary of State to the Embassy in Haiti[1]

Washington, July 11, 1957—6:32 p.m.

17. Department concerned over continuing deterioration Haitian political and economic situation (urtels 6, 8 and 9).[2] No encouraging trends discernible judging from your reports nor do they seem likely

[1] Source: Department of State, Central Files, 738.00/7–957. Confidential; Priority.

[2] Regarding telegram 6, see footnote 2, *supra*. Telegrams 8 and 9 from Port-au-Prince, July 9, are not printed. (Department of State, Central Files, 738.00/7–957)

to develop spontaneously. Although we have conscientiously stood completely aside for past seven months while events have run their course some degree of initiative or leadership may now be due from us such as Embassy may be able quietly to supply without "intervening" in any sense. If you deem it advisable you might speak discreetly and informally with Junta members saying that US prefers not to delay recognition unduly in such cases but in view of recent experience does not wish to find itself recognizing a new de facto regime every few weeks and would like reasonable assurance that Junta is actually in effective control of country as well as ready to abide by nation's international obligations. In this connection we are concerned over continuing signs of political cleavages, and feel it important that the Junta reconcile their differences with one another and with political leaders, desist from apparent dependence on strong-arm police methods and generally raise level of governmental conduct in eyes of international community.

Department also wishes clearest possible information on views of principal political leaders regarding the degree of cooperation Junta might expect from them under reasonable circumstances for interim period and in your discretion you are authorized to sound them out discreetly for that purpose.

While fully appreciating significance of fair and free elections Department would prefer recognition independent of election pledge from Junta. It is assumed that Junta if recognized would accept friendly advice on the subject as well as be prepared to cooperate in an aid and stabilization program of the nature clearly indicated. We cannot very well install an aid program without a recognized government to deal with and furthermore our recognition might conceivably strengthen the Junta's position politically just enough to see it through into a calmer period when further progress could be expected.

Would appreciate your views soonest. Also please furnish list of countries which have already recognized.

Dulles

355. Letter From the Ambassador in Haiti (Drew) to the Director of the Office of Middle American Affairs (Wieland)[1]

Port-au-Prince, July 18, 1957.

DEAR BILL: This is a follow-up on my telegram No. 21 of July 17, 1957,[2] on the meeting with Kebreau and company. It was a great disappointment to me. I suppose I am the incurable optimist, but I did think on the basis that this was a formal meeting I might be able to extract something from the other side. I got little or nothing out of it except a play-back of the familiar record which we have heard before both directly and indirectly. It all boiled down to something along the line that "We want you to recognize us; therefore you have to recognize us because everything is wonderful".

My telegram pretty well covered the question of elections. I think it made it clear that they were far from convincing that they had any serious intention of getting on with them. Their clinching argument was that, on their word as gentlemen and soldiers that they would hold elections, everything was settled and we had no recourse but to recognize. My repeated and emphatic insistence that I was not making elections or anything else a prerequisite to recognition fell on unwilling ears.

I got absolutely no where with my reference to political arrests, cleavage within the Army or similar matters. My statements were pooh-poohed as being based on rumors designed to cause friction between the Embassy and the Junta. As an example of such naughty rumors, Kebreau mentioned a story that the Embassy was going to be burned down. (If it did happen it would solve a lot of our problems here.)

It was obvious that during the 36-hour notice of the meeting, the Haitian side had done quite a bit of rehearsing. Kebreau was his usual dignified and rather impressive self. Zamor started out with a glowering and sulky expression but warmed up as the conversation proceeded and at the close had impressed me as reasonably friendly and quite a forceful individual. Valville was a complete cipher. Captain Farau impressed me as a smart-aleck who wanted sitting on particularly when he read me a curtain lecture on the principles of recognition which was intended to show me that we had no recourse

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[1] Source: Department of State, Central Files, 738.00/7–1857. Confidential; Official–Informal.

[2] In telegram 21, Drew described his discussion with the members of the Junta on July 16. (*Ibid.*, 738.00/7–1757)

but to recognize. Colonel Roumain's principal contribution was a repeated demand to know "When do you recognize us?".

Throughout the meeting there were occasional remarks which may or may not have been intended as threatening. I have in mind Kebreau's reference to a newspaper story that we had "broken relations" with Haiti. He also referred to rumors that we were working against the regime. To these I answered that he was quite at liberty to put an end to such rumors by leaking or announcing the fact of our meeting as proof that we entertained friendly if not official relations. I got no reaction at all, as I gather that was not in the script.

The fact that the meeting took place is pretty well known to the public. Various rumors are spreading, among them, one that unless we recognize at once all Americans will be evicted from the country. Another one is that Kebreau will "break relations" and withdraw all Haitian personnel from their Embassy in Washington. While I am not taking them too seriously, I would not be at all surprised if the Junta does embark on something of a war of nerves. It is a fact that they desperately want our recognition to put the seal of respectability on the regime. They also know that unless we make the first move none of the major powers will do so.

I am sure that the Department too was disappointed that this second meeting was not more productive of progress. Obviously, I am fully prepared to abide by the Department's decision if for reasons not known to me it should see fit to override my recommendation and proceed with recognition. I have in mind the danger that Haiti might at least threaten to turn to the Soviets for help or that the Communists in this hemisphere or elsewhere might try to make propaganda out of our protracted non-recognition. I have also thought of the possibility that more delay might embarrass us in some way in the hemisphere. I am sure I don't have to tell you that I would accept the Department's decision gracefully and as cheerfully as possible if it should decide to overrule me.

Incidentally, I am in frequent touch with my Diplomatic colleagues, some of whom inspire confidence in matters of this kind, and they are unanimous in their feeling that this Government has not earned recognition. I made a courtesy visit on the Archbishop this morning and found him surprisingly vehement in his hostility to the regime. The press and responsible elements —and I don't mean just supporters of Dejoie[3]—are becoming increasingly outspoken against it. The reasons are not all tangible, although the principal ones are those we have recorded.

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[3] Louis Dejoie, Haitian Senator and Presidential candidate in the elections on September 22.

For background, in case anyone is interested, I enclose some rough notes which I prepared in advance of the meeting as a script from which to talk, as well as a Memorandum of Conversation prepared by Assistant Attaché Rodney Landreth who was present at the conversation.[4] Between the two—I followed my script fairly closely—you should have a fairly good idea of the course of the conversation.

Please don't ask me where we go from here. I don't know.

Sincerely,

Jerry

[4] Drew's preparatory notes and the memorandum of conversation, July 16, are not printed.

356. Telegram From the Secretary of State to the Embassy in Haiti[1]

Washington, July 19, 1957—12:57 p.m.

25. Dept shares your apparent view that it is not ordinarily desirable in inter-American relations to utilize recognition as an instrument of policy (see resolution XXXV Bogotá Conference). Likewise Embtel 21[2] does not indicate that any positive advantages are likely to accrue from withholding of recognition from Kebreau Junta for an indefinite further period. Therefore while Junta did not react as well as expected to your approach as summarized Embtel 21, Dept would appreciate your views regarding following line of reasoning:

1) Present Junta has been in de facto control of Haitian Government since June 12. There appears to be no organized threat shaping up or widespread opposition to its continuing control; 2) Kebreau has indicated his regime prepared to live up to country's international obligations; 3) There is no evidence on hand that Junta is influenced by or connected with communist elements; 4) Whether or when elections are to be held is an internal decision not properly a condition precedent to recognition although we should continue impress on Haitians by all appropriate means importance we attribute to elections; 5) On balance and after full consideration certain

[1] Source: Department of State, Central Files, 738.00/7–1957. Confidential; Priority.
[2] See footnote 2, *supra*.

deficiencies in attitude of Junta outlined in your recent reports, would it not be better to try to cope with shortcomings through establishing and utilizing diplomatic relations with Kebreau regime?[3]

Dulles

[3] In telegram 30 from Port-au-Prince, July 22, Ambassador Drew reported in part: "If Department in light broader picture as seen from Washington perspective decides recognize I will make no objection. However I don't think Junta has earned recognition with all stops out. I recommend it be done in strictly routine manner with no fanfare." (Department of State, Central Files, 738.02/7–2257)

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357. Memorandum From the Secretary of State to the President[1]

Washington, July 25, 1957.

SUBJECT

Recognition of the New Government of Haiti

On June 14, 1957, the Haitian Army forced the resignation of Provisional President Daniel Fignole and established a three-man Military Council of Government to fill the Executive vacancy. Fignole's Government, which was not recognized by the United States, had lasted only 19 days. It was one of a number of Governments since President Magloire resigned last December.

The Foreign Office, in a Note to our Embassy at Port-au-Prince on June 15, and the Military Council, in a Proclamation of June 14, set forth the new Government's intention to abide by its international obligations, to maintain order and protect property, and to hold free, democratic elections as soon as practicable.

I believe that the statements of intention of the new Government have been made in good faith and that it is in our national interest now to recognize the Military Council. After recognition, we should continue to use our influence and to extend whatever assistance may be indicated to help Haiti along the road to democratic government and economic health. The present Government is without Communist taint and is friendly to the United States.

[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series.

I request your authorization to take the necessary steps to recognize the present Government of Haiti.[2]

John Foster Dulles

[2] A handwritten notation on the source text indicates that the President approved this memorandum. In telegram 34 to Port-au-Prince, July 26, the Department instructed the Embassy to deliver a note to the Haitian Foreign Office on July 30 recognizing the Military Council as the provisional government of Haiti. This telegram states: "Agree your recommendation no fanfare. Department does not presently plan statement." (Department of State, Central Files, 738.02/7–2257) Department of State press release 439 of July 30 reads as follows: "The United States Government on July 30 recognized as the Government of Haiti the Military Council established on June 14, 1957." (Department of State *Bulletin*, August 19, 1957, p. 315)

358. Editorial Note

The Haitian presidential election, held September 22, resulted in the election of Dr. François Duvalier. The military government imposed martial law on September 27 when supporters of Louis Dejoie, the defeated presidential candidate, threatened to call a general strike. Upon the inauguration of Duvalier on October 22, the military relinquished control of the government and lifted the state of martial law. Documentation on these events is in Department of State, Central File 738.00.

359. Despatch From the Ambassador in Haiti (Drew) to the Department of State[1]

No. 246 *Port-au-Prince, November 30, 1957.*

SUBJECT

Political Situation; A Brief Appraisal of the Duvalier Administration's First Month in Office

Summary

Since the election of Dr. Francois Duvalier as President of Haiti on September 22, 1957, and his inauguration on October 22, 1957, the country has enjoyed an uneasy political peace resulting in part from the disorganization of opposition forces, from emotional exhaustion of the comparatively small politically-conscious segment of the public at large, and from fear of the Army's demonstrated firm policy of containing opposition activity by force. The continuing financial crisis has been temporarily ameliorated by the first proceeds of a good coffee crop. On the other hand, President Duvalier's announced policy of "national unity" has been negated by a ruthless "spoils system" undermining all branches of the Government; campaign promises of wider employment, higher wages and better working conditions remain unfulfilled; more evident is the public's dislike of the obvious Army domination of the civil Government; opposition forces are plotting to capitalize on the public's disillusionment; and the failure of the present Government of Haiti to bring about a satisfactory solution of the "Talamas Case" [2] has postponed effective United States economic and financial assistance. Continued economic dislocation and political disillusionment is emboldening the opposition forces which are seeking an opportunity for overt action to overthrow the administration and the Army high command.

Possibly offsetting some of these adverse factors is the fact that the Army is reasonably well unified under the Chief of Staff, General Kebreau. Some hope for economic recovery springs from expressions of private American interest in a number of new investment possibilities. Loans are being sought from Cuba, Venezuela and the Dominican Republic. However, there is little indication that private funds or the proceeds of foreign borrowing will be made

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[1] Source: Department of State, Central Files, 738.00/11–3057. Confidential.

[2] Shibly Jean Talamas, an American national, died the night of September 29 while in the custody of Haitian police in Port-au-Prince. In telegram 101 from Port-au-Prince, October 1, the Embassy transmitted to the Department the text of a note delivered that day to the Haitian Foreign Office registering an official protest over the death of Talamas. (*Ibid.*, 238.113–Talamas, Shibly Jean/10–157) Additional documentation is *ibid.*

available in time or in the quantity necessary to remove the economic threat to the stability of the present administration. These positive factors and circumstances might develop and combine to enable the Government to remain in power. Nevertheless, it can only be concluded that the Duvalier administration has ahead of it during the next few months an extremely difficult road to survival.

Discussion

Comparative political tranquility has been enjoyed by Haiti during the interim rule by the Military Junta from June 15 to the inauguration of President Duvalier on October 22 and since then under his civil Government. This surface calm is due largely to the public's fear of the strong repressive policy of the Army to intimidate the masses and the opposition leadership. Purely political arrests and threats of arrests continue, as do police entry and search of private homes without warrants. The beating to death of an American citizen, without yet punishment of those guilty, has added to these fears. This tranquility by intimidation is assisted by the emotional exhaustion of much of the politically conscious public after a year of tension and economic crisis.

President Duvalier's election with open Army support to assure a considerably larger vote than he would have obtained in a wholly free election has prolonged the bitterness of opposition groups. His plan to temper this situation by a policy of "national unity", i.e. political amnesty and rapprochement with opposition supporters to be kept in and brought into all echelons of his Government, has given way to new political arrests and the operation of a "spoils system" more extensive than Haiti has seen for a generation. Political wounds remain unhealed; bitterness has increased; the Government's ability to administer the nation has been further decreased; and hope that the President might lead his country out of political chaos and economic depression is waning.

The scattered labor unions in Port-au-Prince are voicing discontent with working conditions and wages. The politically influential taxi drivers' union is unhappy with the low level of tourism blamed in part on the failure of the Government to give satisfaction to the United States in the "Talamas Case." The doubt and discontent of the laboring classes is matched by a general disillusionment of the business community in the "do nothingness" of the new administration with respect to the economic problems confronting the nation. In the field of governmental administration, the President and his advisors have not shown ability, clarity or firmness of purpose. At least a half a dozen American economic, legal, industrial and public relations advisors have been retained without apparent coordination of their activities or counsel. Some self interest in their various

activities seems likely. Forthrightness in attacking the nation's serious financial condition is not yet apparent. Much-discussed economic planning has taken no tangible form. The President and his Minister appear preoccupied in appeasing job-hunters.

A more fundamental source of public apprehension stems from the increasingly obvious domination of the civil Government by the Army under Chief of Staff General Kebreau, the former head of the Military Junta. Haitians traditionally fear and have not long tolerated pure military rule. In apparent realization of the public's attitude, General Kebreau seems satisfied to exercise rule through personal domination of the President and his Ministers. It is generally conceded that President Duvalier would not long stay in office without Army support and that on the other hand the Army could not long rule without the reasonably popular President as its front man. The uneasy alliance between the two does not add to the public's estimation of the permanence or objectivity of the present regime.

The situation lends itself to the plans of the opposition forces which hope to drive a wedge between the President and the Chief of Staff in order to weaken the alliance and seize the power by force of arms if necessary. However, these forces are not wholly united in their efforts and objectives and are kept off balance by Army harassment of their leaders. Consequently, successful overt action is unlikely in the immediate future but possible before the turn of the year. The threat is constant and will grow with further signs of Government weakness or of internal strife among those now exercising the ruling power.

On the other hand it is possible that certain positive factors and circumstances may combine to strengthen the Government's position. The instinct of self preservation will probably keep the Army unified in a showdown. The Talamas Case might be satisfactorily resolved in the near future. Resumption of normal relations with the United States and consequent prospect of some additional financial and economic aid would greatly strengthen the President's position. Greater hope for new American private capital investment might have a stimulating effect. The good coffee crop and a fair tourist season could tide the economy over until the next "dead season" starting about April 1958. The public might accept the fact of Army rule through the civil Government or the President might find a way to throw off the Army yoke and thus increase his popularity. Finally, widespread current political apathy, a willingness to accept an end to political tension even at the price of unpopular behind-the-scenes Army control, coupled with lost hopes that democratic processes could produce a better government, must be considered as a positive factor in favor of the survival of the Duvalier administration.

Conclusion

On balance, present factors and circumstances point only to the exacerbation of the extreme difficulties facing the month-old Duvalier administration. The political and economic problems are inextricably related. It is not clear how or when they can be solved. Even if the political opposition can be contained for the next few months, the administration will again face serious economic problems with the advent of the "dead season" starting in the Spring of 1958. Hopes for the protracted survival of the Duvalier Government must be greatly tempered until it shows a more forthright ability to deal with its problems.

For the Ambassador:
J. Paul Barringer
Counselor of Embassy

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360. Despatch From the Ambassador in Haiti (Drew) to the Department of State[1]

No. 247 *Port-au-Prince, November 30, 1957.*

SUBJECT

Meeting with President Duvalier

President Duvalier sent for me the afternoon of November 27 and in a brief but cordial conversation, at which no one else was present, took up with me the following subjects:

(1) He said that he had taken the Talamas Case into his own hands and would push it to an early and satisfactory conclusion. The President said that those responsible for the killing of Talamas would be punished in accordance with the Haitian Code of Military Justice. I described briefly to the President the talk which Mr. Barringer and I held at his request with the Minister of Finance, Fritz Thebaud, the night of November 8. I could not tell from the President's response whether Thebaud had reported back to him or not. I told the President of the interest of a number of visiting American Congressmen in the case and suggested that it would be desirable to settle the case before Congress convenes early next

[1] Source: Department of State, Central Files, 738.00/11–3057. Confidential.

January. I was favorably impressed by the President's apparent sincerity on this subject.

(2) The President next turned to the so-called Cuban Loan. He said that for many years thousands of Haitian workmen had gone annually to Cuba to cut sugar cane and had left part of their wages in Cuban banks, usually under assumed names. It was estimated that between ten and twelve million dollars had accumulated in Cuban banks in this way and that it would be impossible to identify or find the true owners. The Cuban banks were, in effect, making an advance payment to the Haitian Government of four million dollars to be repaid out of the funds in these dormant accounts and that, therefore, it was not actually a loan. The President said that he had given orders to keep the IMF and IBRD representatives fully informed. He expressed his high regard for Mr. Vera and Mr. Bochensky and his interest in working closely with them. I thanked the President for his explanation and said that we had reported the known facts to Washington.

(3) What appeared to be the President's real purpose in sending for me then emerged. He said that there are three employees of SCISP who must be discharged at once. He mentioned by name Madame Camille L'Herisson, whose husband he described as an enemy of the country. He said that SCISP employees had repeatedly gone on strike over the past ten months and that the other two employees, who were not named, were responsible for the strikes and were engaged in political agitation against the administration. I said that I had been informed by the Director of USOM[2] that the Haitian Director General of Public Health[3] had asked that these persons be dismissed. I reminded the President of our fixed policy of keeping politics out of the Cooperative Servicios and that technicians were regarded as career personnel. Without making any commitment I promised to discuss the subject with Mr. Yoe. I might say that the President was more emphatic on this subject than I have ever seen him.

The President also mentioned in passing that he was anxious to have a United States Army Mission to help reorganize the Haitian Army and to expand the Naval Mission.

I expressed my appreciation for the opportunity to talk privately with the President and urged him to feel free to call for me at any time he had matters of mutual interest to discuss.

Gerald A. Drew

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[2] John P. Hoover.
[3] Dr. Auguste Denize.

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